

An aerial photograph of Norfolk, Virginia, showing a dense urban landscape with numerous skyscrapers and buildings. The city is situated along a large body of water, with a prominent bridge visible in the foreground. The overall scene is a high-angle, wide-area shot of the city's skyline and waterfront.

Comprehensive Annual Financial Report

Employees' Retirement System

A Pension Trust Fund of the City of Norfolk, Virginia

Fiscal Year Ended June 30, 2014

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Employees' Retirement System of the City of Norfolk A Pension Trust Fund of the City of Norfolk, Virginia

For the Fiscal Year Ended June 30, 2014

**Prepared by the Employees' Retirement System Staff
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INTRODUCTORY SECTION
(Unaudited)



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Employees' Retirement System
of the City of Norfolk, Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

A handwritten signature in black ink, which appears to read 'Jeffrey R. Egan'. The signature is written in a cursive, flowing style.

Executive Director/CEO

INTRODUCTORY SECTION



December 19, 2014

Letter of Transmittal

The Board of Trustees
Employees' Retirement System of the City of Norfolk
Norfolk, Virginia 23510

The Comprehensive Annual Financial Report (CAFR) for the Employees' Retirement System of the City of Norfolk (System) for fiscal year ended June 30, 2014 is hereby submitted. The System is a Pension Trust Fund included in the financial statements of the City of Norfolk, Virginia. The System administration is responsible for the accuracy and fairness of information contained in this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the plan net assets and changes in plan net assets of the System in accordance with U.S. generally accepted accounting principles (GAAP).

The System is the administrator of a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding Constitutional Officers and School Board employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included as a pension trust fund, fiduciary fund type in the City of Norfolk's CAFR.

Management's Discussion and Analysis (MD&A) as required by GAAP is included in the financial section of this report. The MD&A provides a narrative overview and analysis of the financial status of the System for the year ended June 30, 2014 (for more information, see pages 13 through 16).

System History

The Employees' Retirement System is a defined benefit plan that was established by Section 37 of the Code of the City of Norfolk, Virginia (Code), and began operations as of January 1, 1942. Section 37 of the Code, as amended from time to time, established the authority under which the City of Norfolk's obligation to contribute to the plan is set forth. A single fund is used for all participants, and there is no segregation of assets for individual classes of employees or City and employee contributions.

INTRODUCTORY SECTION

Letter of Transmittal (continued)

Benefit Provisions

The System provides normal and early service retirement benefits as well as death and disability benefits. All benefits vest after five years of creditable service effective January 1, 1997. Ad hoc cost-of-living adjustments are provided at the discretion of the City Council. The benefit provisions of the plan are also determined by Section 37 of the Code.

On May 20, 2014, as part of the adoption of the City of Norfolk's FY15 Operating Budget, the City Council approved Ordinance Number 45,563, effective January 8, 2015, that will require all System members to pay contributions on a salary reduction basis in the amount of 5% of earnable compensation, with the exception of City Council members hired before October 5, 2010. Employees of the Norfolk Community Services Board at June 30, 2012 who became City employees on July 1, 2012 will also be required to pay member contributions effective January 8, 2015. Upon vesting, member contributions become an asset of the System to be used to pay benefits under the System. In the event of death or departure prior to retirement or vesting, member contributions, accruing interest at a minimum of zero percent (0%) and a maximum of four percent (4%) annually beginning at the end of the fiscal year in which the contribution was made, shall be refunded.

The City Council, on May 20, 2014, also adopted Ordinance Number 45,566 that established a Deferred Retirement Option Program (DROP) for policemen and firemen who are eligible for a normal service retirement, effective January 1, 2015. The program period will not exceed four years and will provide for a seventy percent (70%) deferment of retirement allowances, to be paid in a lump, at the end of the program period.

On June 24, 2014, the City Council of the City of Norfolk approved Ordinance Number 45,604 that provided the addition of a City of Norfolk retiree to the Board of Trustees of the System, thereby increasing the Board's membership from nine (9) trustees to ten (10) trustees.

The Retirement Office staff provides counseling to all benefit applicants and to others requesting counseling. Presentations at new employee orientations and at various employee groups meetings are provided as requested throughout the year. All forms and retirement planning information are available in the Employees' Retirement Office, 810 Union Street, Suite 309.

Accounting System and Internal Control

Financial statements included in this report are the responsibility of the System's management and have been prepared in accordance with the principles of governmental accounting and reporting requirements promulgated by the Governmental Accountant Standards Board (GASB). The 2014 fiscal year financial statements have been audited by KPMG LLP in conjunction with the City of Norfolk's annual audit.

The accrual basis of accounting is used to record assets, liabilities, additions and deductions of the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. In developing the accounting system, consideration was given to the adequacy of internal accounting controls. These were designed with the concept of reasonable rather than absolute assurance recognizing that the cost of a control should not exceed the benefits likely to be derived and that the calculation of costs and benefits

INTRODUCTORY SECTION

Letter of Transmittal (continued)

requires estimates and judgments by management. A continuing effort is being made toward improving the controls to provide reasonable assurance of proper recording of financial transactions in all material respects.

Funded Status

A pension plan is considered adequately funded when reserves are available to meet all expected future obligations to participants. The System's funding objective is to meet long-term benefit payments through investment returns on trust fund assets and annual employer and employee contributions. The advantage of a well-funded plan is that participants are confident that sufficient assets are available for the payment of current and future member benefits. An actuarial valuation of the System to determine funding requirements is performed annually. The actuarial valuation used for this report period was completed with payroll data as of June 30, 2014. Information from this report is included in the Actuarial Section.

The City of Norfolk's commitment to provide a financially sound retirement plan for its employees is illustrated within this report. "The Schedule of Employer Net Position and Related Ratios" found in the Required Supplementary Information of the Financial Section, expresses plan net position as a percentage of the total pension liability, which provides one indication of the System's funding status. The "Schedule of Employer's Contributions" includes historical trend information about the actuarially determined contributions (ADC) of the employer and the contributions made by the employer in relation to the ADC. As of June 30, 2014, the System's funded ratio is 84.5%, an increase of 2.2% from 82.3% as of June 30, 2013. This funded ratio does not include any market movements since June 30, 2014. The next valuation will reflect market conditions through June 30, 2015.

Investments

The Board of Trustees for the Employees' Retirement System (Board or Trustees) formally amended and adopted a written Statement of Investment Policy on July 2, 2014 that includes the guidelines and objectives for the investments of the System. The policy is reviewed annually and changes are made as warranted. During the fiscal year, the System adopted an asset allocation of 33% Domestic Equities; 22% International Equities; 35% Fixed Income; 5% Real Estate and 5% Master Limited Partnerships.

The Trustees are empowered to invest the System's assets utilizing the "Prudent Person" standard and to take appropriate action regarding the investment, management, and custodianship of plan assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives. Each investment manager must adhere to the guidelines established by the Trustees for investment asset quality, diversification, liquidity and risk. Both annual and longer term (3 to 10 years) goals for investment returns are established for each manager. Attainment of these goals weighs heavily in terms of whether or not a manager's contract is renewed. Typically, managers who fall below the Trustees' minimum objectives over the longer term are replaced.

The Trustees recognizes that the objective of a sound and prudent investment policy is to generate total returns consistent with its risk tolerance and return requirements. The Trustees have carefully exercised its responsibility by prudently diversifying the System's assets.

INTRODUCTORY SECTION

Letter of Transmittal (continued)

The System has converted the majority of its portfolio to a passive investment structure. With the exception of the PIMCO fixed income securities, real estate funds managed by JP Morgan and UBS Trumbull, and Master Limited Partnerships managed by Harvest Fund Advisors and Tortoise Capital Advisors, all of the System's investments were consolidated into a passive approach with State Street Global Advisors in 2008. It is currently the intent of the Board to maintain this structure for the portfolio.

The investment results of each manager as well as the result for the total fund are monitored by an independent pension investment advisory firm who, as a consultant, reports its findings to the Board on a monthly basis. The pension investment consultant interacts with the System staff, and prepares recommendations on investment policies, investment management structure, and asset allocation. The consultant also monitors and evaluates the performance of the investment managers and effectiveness of the custodian.

The net position of the System as of June 30, 2014 was \$1.036 billion, an increase of \$123.8 million from the prior year restated balance, due to the System's retrospective adoption of GASB 67 in fiscal year 2014, of \$912.4 million. Investment return for the year was 17.3%. Management of the System believes that the System is financially and actuarially sound, and well positioned to pay retirement benefits as they are due. A summary of the System's investment portfolio asset allocation and historic returns can be found in the Investment Section of this report.

Current Economic Condition

The U.S. Dollar rose 7.7% against a basket of major foreign currencies during the third quarter, one of the biggest moves in the currency since the 1960s. This strengthening of the dollar will act as a headwind for U.S. earnings and growth, as U.S. exports become more expensive and domestic firms' international earnings must be repatriated into dollars. The fair market value of the System's investment portfolio has decreased from \$1,023 billion in June 30, 2014 to \$1,012 billion in September 30, 2014. The subsequent decrease was mainly driven by a decline in non-U.S. equities, but partially offset by gains in real estate and Master Limited Partnerships. During the third calendar quarter of 2014, the US equity market (Russell 3000 Index) was flat, international markets were down (MSCI ACWI ex US Index) 5.2%, and fixed income (Barclays Aggregate Index) returned 0.2%. This environment proved challenging to various investment strategies.

Calendar year-to-date through September 30, 2014, the US equity market was up 7.0%, international markets were up 0.4%, and the fixed income market generated a return of 4.1%.

Historically, the month of October has been challenging for the markets. It is expected that volatility will increase as a result of political uncertainty and the outlook for slower global economic growth. As a result, the Investment Management Committee continues to meet regularly to monitor the investment results and portfolio structure of the System and to assess whether any actions need to be taken to minimize losses.

Professional Services

The professional consultants who are contracted by the Board of Trustees to perform services that are essential to the effective and efficient operation of the System are listed on page 8. An independent audit was conducted by KPMG LLP, and a copy of KPMG LLP's report on the financial statements is found on pages 10-12.

INTRODUCTORY SECTION

Letter of Transmittal (concluded)

A certification letter from the actuary, Cheiron, is also included as part of this CAFR on pages 40-42. State Street Bank and Trust is the System's custodian.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System for the City of Norfolk for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. This was the ninth year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The compilation of this report reflects the combined effort of the System's staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

On behalf of the Board of Trustees, I would like to take this opportunity to express our sincere gratitude to the staff, the advisors, and to the many people who have worked so diligently to help ensure the successful operation of the System.

Respectfully submitted,



Sheryl Potter-Griggs
Acting Executive Director

INTRODUCTORY SECTION

The Board of Trustees

Stephanie Adler Calliott, CFP Senior Vice President, Community Relations Children's Hospital of the King's Daughters	Chair	Appointed January 9, 2007
Christopher R. Neikirk Assistant Vice-President - Finance Norfolk Southern Corporation	Member	Appointed January 9, 2007
Lawrence A. Bernert III, CFA Principal and Portfolio Manager Wilbanks, Smith and Thomas Asset Management, LLC	Member	Appointed October 30, 2007
Yvonne T. Allmond Senior Vice-President of Private Banking TowneBank	Member	Appointed October 30, 2007
Kenneth W. Crowder Owner/Agent State Farm Insurance Agency	Member	Appointed February 3, 2009
Nicholas E. Nelson (public safety) Fire Lieutenant/Paramedic	Member	Appointed August 28, 2007
Eric G. Tucker (general employee) Assistant Director of Utilities	Member	Appointed August 28, 2007
Arthur M. Eason, III Real Estate Team Leader - Retired	Member	Appointed November 25, 2014
Marcus D. Jones City Manager	Ex-officio Trustee	
Alice M. Kelly, CPA Director of Finance	Ex-officio Trustee	

The members of the Board are appointed and serve pursuant to Chapter 37 of the Norfolk City Code, which provides for ten (10) members.

The Ex-officio trustees serve by virtue of their position with the City of Norfolk.

INTRODUCTORY SECTION

Consultants and Professional Services

Legal Advisor

Mary L. G. Nexsen
Deputy City Attorney

Medical Examiner

Dr. David Sack and Dr. Anthony C. Cetrone
NowCare

Actuary

CHEIRON

Custodian

State Street Bank and Trust

Consultants

Summit Strategies Group
Jessica N. Portis, Senior Consultant

Independent Auditor

KPMG LLP
Norfolk, VA

Investment Managers

Domestic Equity

State Street Global Advisors
Boston, Massachusetts

International

State Street Global Advisors
Boston, Massachusetts

Fixed Income

State Street Global Advisors
Boston, Massachusetts

Pacific Investment Management Company
Newport Beach, California

Real Estate

J.P. Morgan Chase Bank
New York, NY

UBS Trumbull
Harford, CT

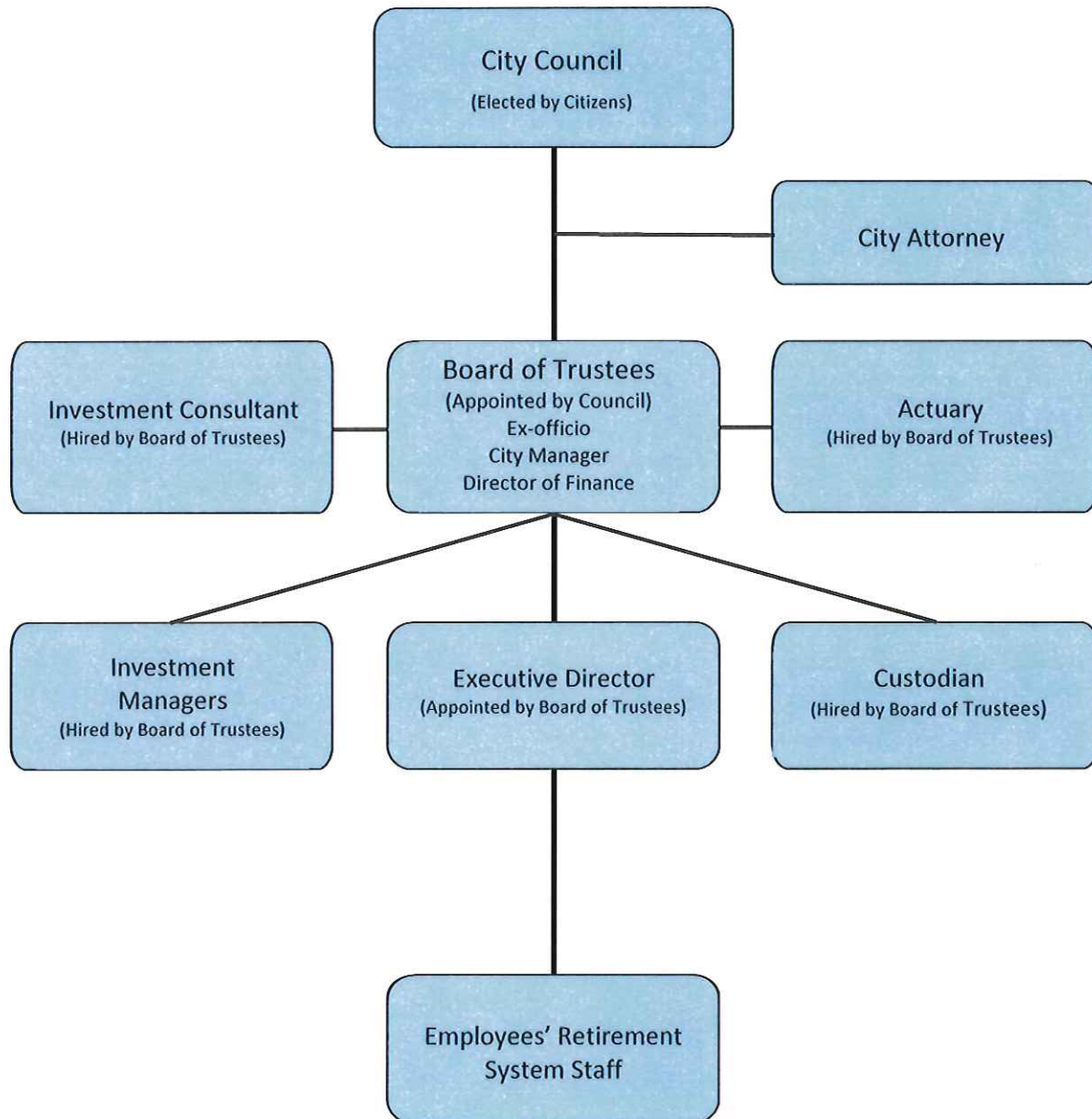
Master Limited Partnership

Harvest Fund Advisors LLC
Wayne, PA

Tortoise Capital Advisors
Wayne, PA

Investment Manager and Investment Assignments can be found on page 33.

ORGANIZATIONAL CHART



(As of 2013)

FINANCIAL SECTION

FINANCIAL SECTION



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Trustees
Employees' Retirement System of the City of Norfolk:

Report on the Financial Statements

We have audited the accompanying financial statements of the Employees' Retirement System of the City of Norfolk (the System), a fiduciary fund of the City of Norfolk, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System as of June 30, 2014, and the changes in its financial status for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1 to the financial statements, in fiscal year 2014, the System retrospectively adopted the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 13 through 16, the schedule of changes in net pension liability and related ratios on page 28, notes to required supplementary information, on page 29, the schedule of employer's contributions on page 30, the calculation of a money-weighted rate of return on page 31, and the schedule of investment returns, on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The schedule of administrative expenses, schedule of investment expenses, introductory section, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of administrative expenses and the schedule of investment expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of administrative expenses and the schedule of investment expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section, investment section, actuarial section, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

FINANCIAL SECTION



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
December 19, 2014

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of the financial performance of the Employees' Retirement System of the City of Norfolk (the System) provides an overview of financial activities for the fiscal years ended June 30, 2014 and 2013. Please read Management's Discussion and Analysis in conjunction with the basic financial statements and the related notes thereto, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets (as restated for the retrospective adoption of GASB 67, *Financial Reporting for Pension Plans*) exceeded liabilities at the close of fiscal years 2014 and 2013 by \$1,036.2 billion and \$912.4 million, respectively (reported as plan net position). Previously, the annual required contribution was accrued by the System upon authorization of the actuary's recommendation near the end of each fiscal year and approval of the respective appropriation by City of Norfolk (the City). Because the City is not legally obligated to contribute this amount to the Plan, GASB 67, does not permit the recognition of the employer contribution receivable. Therefore, the prior year employee contribution receivable that was paid in cash during the 2014 fiscal year was reflected in the statement of Changes in Plan Net Position in accordance with GASB 67. In addition, the beginning Plan net position at 7/1/13 was adjusted to remove the respective prior year employee contribution receivable. For comparability purposes, the 2013 fiscal year activity and balances included in the MD&A were restated to present the retrospective application of GASB 67. Total Plan net position is held in trust to meet future benefit obligations.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The net position as a percentage of the total pension liability was 86.53% and 78.67% as of June 30, 2014 and 2013, respectively.
- Total additions increased over the prior year by \$58.2 million or about 40.7%. This increase was mainly due to an increase in net appreciation in fair value of the System's investments in the most recent period versus the prior period.
- Total deductions increased over the prior year from \$74.7 million to \$77.5 million or 3.7%. This increase represented increased retirement benefits paid.

THE STATEMENT OF PLAN NET POSITION AND THE STATEMENT OF CHANGES IN PLAN NET POSITION

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements: The Statement of Plan Net Position and the Statement of Changes in Plan Net Position. These financial statements report information about the System as a whole and about its financial condition that should help answer the question: Is the System, as a whole, better or worse off as a result of this year's activities? These financial statements include all assets and liabilities that are due and payable using an economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all additions and deductions are taken into account regardless of when cash is received or paid.

The Statement of Plan Net Position presents all of the System's assets and liabilities, with the difference reported as plan net position. Over time, increases and decreases in net position measure whether the System's assets available for benefits is improving or deteriorating. The Statement of Changes in Plan Net Position presents how the System's net position changed during the most recent fiscal year. These two financial statements should be reviewed along with the unaudited required supplementary information, and the unaudited other supplementary information, to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS

Employees' Retirement System of the City of Norfolk Summary of Plan Net Position As of June 30, 2014 and 2013

	FY 2014	(1) FY 2013	2014-2013 Percent Change
Assets			
Cash and cash equivalents	\$ 28,920,780	\$ 21,963,318	31.7%
Receivables	6,831,767	60,110,710	(88.6)%
Investments	1,022,601,389	925,523,365	10.5%
Total assets	<u>1,058,353,936</u>	<u>1,007,597,393</u>	5.0%
Liabilities			
Accounts payable and accrued expenses	597,275	541,418	10.3%
Due to brokers for securities purchased	21,577,701	94,692,800	(77.2)%
Total liabilities	<u>22,174,976</u>	<u>95,234,218</u>	(76.7)%
Plan net position restricted for pensions	<u>\$ 1,036,178,960</u>	<u>\$ 912,363,175</u>	13.6%

(1) As restated for the adoption of GASB 67 in fiscal year 2014

Total assets as of June 30, 2014 and 2013 were \$1,058,353,936 and \$1,007,597,393 respectively, and were comprised of cash and cash equivalents, receivables, and investments. Total assets increased by \$50,756,543 or 5.0% for fiscal year 2014, primarily due to appreciation in fair value of investments, which was offset by the reduction related to the timing for amounts due from brokers for securities sold.

Total liabilities that are due and payable as of June 30, 2014 and 2013 were \$22,174,976 and \$95,234,218 respectively, and were comprised of payables to brokers for investment purchases and administrative costs. For fiscal year 2014, total liabilities decreased by \$73,059,242 or (76.7)% from the prior year primarily due to the timing of investment purchases.

System assets exceeded due and payable liabilities at the close of fiscal years 2014 and 2013 by \$1,036,178,960 and \$912,363,175 respectively. In fiscal year 2014, plan net position available for pension benefits increased \$123,815,785 or 13.6% from the previous year primarily due to net appreciation in fair value of investments as a result of favorable market conditions.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Employees' Retirement System of the City of Norfolk Summary of Changes in Plan Net Position For the Fiscal Years Ended June 30, 2014 and 2013

	FY 2014	(1) FY 2013	2014-2013 Percent Change
ADDITIONS			
Investment income, net	\$ 157,291,834	\$ 100,593,973	56.4%
Employer contributions	42,330,492	41,466,457	2.1%
Employee contributions	1,671,644	1,007,140	66.0%
Total additions	<u>201,293,970</u>	<u>143,067,570</u>	40.7%
DEDUCTIONS			
Benefit payments	77,061,232	74,190,481	3.9%
Refunds of contributions	4,144	6,037	(31.4)%
Administrative expenses	412,809	540,620	(23.6)%
Total deductions	<u>77,478,185</u>	<u>74,737,138</u>	3.7%
Net increase	<u>123,815,785</u>	<u>68,330,432</u>	81.2%
Plan net position restricted for pensions			
Beginning of year	<u>912,363,175</u>	<u>844,032,743</u>	8.1%
End of year	<u>\$ 1,036,178,960</u>	<u>\$ 912,363,175</u>	13.6%

(1) As restated for the adoption of GASB 67 in fiscal year 2014

ADDITIONS TO PLAN NET POSITION

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal years 2014 and 2013 totaled \$201,293,970 and \$143,067,570, respectively.

Net investment income and total contributions increased for fiscal year 2014 by \$58,226,400 from that of the prior year, due primarily to a net appreciation in fair value of System's investments. The total portfolio returned 17.3% for fiscal year ended June 30, 2014 versus 12.1% for the prior fiscal year. The System's target return is 7.0%

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (concluded)

DEDUCTIONS FROM PLAN NET POSITION

The deductions of the System include pension payments to members and beneficiaries, refunds of voluntary contributions to retired members, non-vested former members, and the cost of administering the System. Total deductions for fiscal year 2014 were \$77,478,185, an increase of 3.7% over FY 2013 deductions.

Pension benefits payments increased by \$2,870,751 in FY 2014 or 3.9% from the previous year. The increase in pension benefit payments is a result of turnover in the retirement population. New retirees with higher benefits replaced older retirees. The total number of retirees added in fiscal year 2014 was 221 as compared to 164 for fiscal year 2013. Administrative expenses as of June 30, 2014 and 2013 were \$412,809 and \$540,620, respectively. This was a decrease of \$127,811 or (23.6)% from the previous year as a result of personnel vacancies.

RETIREMENT SYSTEM AS A WHOLE

As a result of an increase in the equity markets, plan net position increased in fiscal year 2014 over fiscal year 2013. The System's net position as a percentage of the total pension liability was 86.53% and 78.67% as of June 30, 2014 and 2013, respectively. The Board, with the assistance of its pension consultant and actuary, continues to utilize the concepts of prudent investment management, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

The annual financial report is designed to provide citizens, taxpayers, plan participants, and the marketplace's credit analysis with an overview of the System's finances and the prudent exercise of the Board's oversight. Any questions regarding this report or requests for additional financial information should be directed to the Employees' Retirement System of the City of Norfolk, 810 Union Street, Suite 309, Norfolk, VA 23510, or the City's website at www.norfolk.gov

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Statement of Plan Net Position

June 30, 2014

Assets:	
Cash and cash equivalents	<u>\$ 28,920,780</u>
Receivables:	
Accrued investment income	1,340,328
Accounts receivable	198
Due from brokers for securities sold	<u>5,491,241</u>
Total receivables	<u>6,831,767</u>
Investments:	
United States Treasury securities	18,904,914
Fixed income securities	128,679,128
Equity securities	64,711,522
Commingled funds:	
Equity	579,178,189
Fixed income	180,150,221
Real estate	<u>50,977,415</u>
Total commingled funds	<u>810,305,825</u>
Total investments	<u>1,022,601,389</u>
Total assets	<u>1,058,353,936</u>
Liabilities:	
Accounts payable and accrued expenses	597,275
Due to brokers for securities purchased	<u>21,577,701</u>
Total liabilities	<u>22,174,976</u>
Plan net position restricted for pensions	<u>\$ 1,036,178,960</u>

See accompanying notes to financial statements.

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Statement of Changes in Plan Net Position

Year Ended June 30, 2014

Additions:**Investment income:**

Net appreciation in fair value of investments	\$ 148,150,904
Interest	7,579,027
Dividends	3,125,472
Other	<u>338,365</u>

159,193,768

Less investment expenses

(1,901,934)

Net investment income

157,291,834

Employer contributions

42,330,492

Employee contributions

1,671,644

Total net additions

201,293,970

Deductions:

Benefits paid directly to participants	72,886,248
Beneficiary payments	4,174,984
Refunds of contributions	4,144
Administrative expenses	<u>412,809</u>

Total deductions

77,478,185

Net increase

123,815,785

Plan net position restricted for pensions:

Beginning of year, as restated (see Note 1.)	<u>912,363,175</u>
End of year	<u>\$ 1,036,178,960</u>

See accompanying notes to financial statements.

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk (A Pension Trust Fund of Norfolk, Virginia) Notes to Financial Statements For the Year Ended June 30, 2014

Note 1. Summary of Significant Accounting Policies

Reporting entity: The Employees' Retirement System of the City of Norfolk (System) is the administrator of a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk (the City), excluding School Board and Constitutional Officer employees covered by the Virginia Retirement System, as authorized by Section 143(a) of the City Charter. The System was established and placed under the management of the Board of Trustees for the Employees' Retirement System for the purpose of providing retirement allowances and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. All employees hired on or after October 5, 2010 contribute 5% of compensation to the benefit plan with the exception of Norfolk Community Services Board employees who became employees effective July 1, 2012. Effective December 13, 2011, all employees hired on or after December 2011 are required to meet the vesting requirement of five (5) years in order to be eligible to receive benefits under the Plan with the exception of Norfolk Community Services Board employees. The aforementioned had their prior service with the Norfolk Community Services Board counted towards the five (5) year vesting requirement without this service being deemed creditable service in the System. See subsequent events Note #8 below for related changes that will be effective beginning in fiscal year 2015.

The System has a ten-member Board of Trustees appointed by the City Council of the City of Norfolk, including the City Manager and Director of Finance as ex-officio members. The System meets the definition of a Fiduciary Fund of the City of Norfolk under applicable accounting standards and as a result, the System's financial statements are incorporated into the Comprehensive Annual Financial Report of the City of Norfolk. These financial statements are those of the System and not of the City of Norfolk, Virginia as a whole. The City of Norfolk makes contributions that are combined with investment earnings of the System to provide funding for pension benefits and administrative costs.

Basis of accounting: The financial statements of the System are prepared using the accrual basis of accounting. Employer contributions are recognized when received by the Plan. Benefits and refunds are recognized when paid.

Governmental Accounting Standards Board ("GASB") No. 67, *Financial Reporting for Pension Plans* ("GASB 67"), was issued to improve the financial reporting by state and local governmental pension plans and amended Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans* ("GASB 25"). GASB 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information. In addition, the standard requires the use of a prescriptive method to calculate the discount rate which is expected to increase the liability and decrease the funded status of most plans. The provisions of GASB 67 were effective for financial statements for fiscal years beginning after June 15, 2013. The System adopted this pronouncement retrospectively in fiscal year 2014.

Previously, the annual required contribution was accrued by the System upon authorization of the actuary's recommendation near the end of each fiscal year and approval of the respective appropriation by the City. Because the City is not legally obligated to contribute this amount to the Plan, GASB 67, does not permit the recognition of the employer contribution receivable. Therefore, the prior year employee contribution receivable that was paid in cash during the 2014 fiscal year was reflected in the Statement of Changes in Plan Net Position in accordance with GASB 67. In addition, the beginning Plan net position at 7/1/13 was adjusted to remove the respective prior year employee contribution receivable. This change results in an adjustment to the plan net position available for pension benefits as of the beginning of the plan year, July 1, 2013 in the amount of \$42,330,492.

FINANCIAL SECTION

Notes to Financial Statements

Note 1. Significant Accounting Policies, concluded:

The reconciliation of the reported plan net position available for pension benefits as of the end of the plan year for the fiscal year ended June 30, 2013 and the plan net position available for pension benefits as of the beginning of the plan year, July 1, 2013 is as follows:

Plan net position restricted for pensions as of the end of the plan year, June 30, 2013, as originally reported	\$954,693,667
Adjustment for recognition of Employer contributions under GASB 67	<u>(42,330,492)</u>
Plan net position restricted for pensions as of the beginning of the plan year, July 1, 2014, as restated	<u>\$912,363,175</u>

Cash and cash equivalents: Cash equivalents consist of repurchase agreements and short-term investments with maturities of three months or less. Short-term investments are recorded at cost that approximates fair value.

Investment valuation method: Investments are reported at fair value. The United States Treasury securities and fixed income securities traded on a national or international exchange are valued at the last reported sales price. Such securities not traded on a national or international exchange are valued based on equivalent values of comparable securities with similar yield and risk. Derivatives are valued by an external pricing source when available. In the absence of an external pricing source, fair value is determined using a proprietary analytics model. Equity securities are valued based upon quotations from national security exchanges. The real estate commingled funds are valued based on semi-annual or annual appraised values of the properties held by the funds. The remaining commingled funds are reported at net asset value (NAV), based on the fair market values of the underlying securities in the fund.

Net appreciation or depreciation in fair value of investments is reflected in the statement of changes in net position and includes realized gains and losses on investments purchased and sold and the change in appreciation or depreciation from one period to the next. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Acquisition costs are included in the cost of investments purchased, and sales are recorded net of selling expenses. Purchases and sales of securities traded but not yet settled at year end are recorded as due to brokers for securities purchased and due from brokers for securities sold, respectively.

Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, deferred inflows, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in plan net position during the reporting period. Actual results could differ from those estimates.

Note 2. Description of the Plan

The System is the administrator of a single-employer, contributory, defined benefit plan that covers substantially all employees of the City of Norfolk, Virginia, excluding School Board and Constitutional Officer employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as a pension trust fund. The types of employees covered and current membership as of June 30, 2014 consists of the following:

FINANCIAL SECTION

Notes to Financial Statements

Note 2. Description of the Plan, concluded:

Retirees and Beneficiaries receiving benefits:	
General	2,537
Public Safety	1,181
Vested Former Members entitled to, but not yet receiving benefits:	
General	823
Public Safety	229
Active Plan Members:	
Fully vested:	
General	1,868
Public Safety	910
Nonvested:	
General	857
Public Safety	309
*Total	
	<u><u>8,714</u></u>

**Includes eight (8) members due
a refund of member contributions.*

The System provides retirement benefits as well as death and disability benefits. All benefits vest after five years of creditable service. Employee eligibility requirements are as follows:

Retirement (for employees who became members prior to July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and the earlier of age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum is equal to 2.0% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees.

Retirement (for employees who became members on or after July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees.

Ad hoc cost-of-living adjustments ("COLAs") are provided at the discretion of the City Council. Participants should refer to the Plan document for a complete description of these benefits.

The Employees' Retirement System is established by Section 37 of the Code of the City of Norfolk, Virginia, 1979, as amended 1997. The benefit provisions of the System are also determined by this Code section.

FINANCIAL SECTION

Notes to Financial Statements

Note 3. Net Pension Liability

The components of the net pension liability of the System at June 30, 2014, were as follows:

Total pension liability	\$ 1,197,466,212
Plan fiduciary net position	(1,036,178,960)
Net Pension Liability	<u>\$ 161,287,252</u>
Plan fiduciary net position as a percentage of the total pension liability	86.53%

Note 4. Actuarial Assumptions and Contributions Made

Significant assumptions used to calculate contribution requirements are the same as those used to calculate the actuarial accrued liability. Normal cost is funded on a current basis. Periodic contributions for normal cost are based on the level percentage-of-payroll method. The funding strategy for normal cost should provide sufficient resources to pay employee pension benefits on a timely basis.

Section 37 of the Code of the City of Norfolk, Virginia 1979, as amended 1997 establishes the authority under which the employer's obligation to contribute to the plan is established or may be amended. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City of Norfolk in the ensuing year. City contributions totaling \$42,330,492 were made from July 1, 2013 to June 30, 2014 in accordance with the actuarially determined contribution requirements stated above.

Voluntary contributions were discontinued in 1979 and have been accumulated thereafter with interest at a rate of 7%. Such contributions are refundable to members who terminate before becoming eligible for retirement benefits. At retirement, members' contributions plus accumulated interest are refunded. Such amounts totaled \$61,694 at June 30, 2014.

Mandatory contributions are collected from employees hired on or after October 5, 2010 on a salary reduction basis in the amount of 5% of earnable compensation and accumulate thereafter with interest at a rate of 4%. Members who vest are not eligible to receive any refund of the mandatory member contribution. Upon vesting, the contribution becomes an asset of the System to be used to pay benefits under the System. Such contributions are refundable to members who terminate before becoming eligible for retirement benefits. The total amount of employee contributions subject to being refundable based on member vesting status as of June 30, 2014 was \$3,313,519. Mandatory contributions totaled \$1,671,644 for the year ended June 30, 2014. See subsequent events Note #8 below for related changes that will be effective beginning in fiscal year 2015.

The funding objective of the Employees' Retirement System is to:

- a) fully fund the normal cost contribution for the current year determined under the funding method, and
- b) liquidate the unfunded accrued liability based on level dollar contributions payable over an open amortization period of 20 years.

FINANCIAL SECTION

Notes to Financial Statements

Note 4. Actuarial Assumptions and Contributions Made, continued:

For the June 30, 2014 actuarial valuation, the actuarial assumptions included the following:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Closed, 20-Year Layers
Amortization Growth Rate	3.0%
Asset Valuation Method	3-Year Smoothed Value
Inflation	3.0%
Salary Increases - General Employees	Average of 5.64% over a 30-year career; based on rates that vary by year of service and are compounded annually
Salary Increases - Public Safety Employees	Average of 6.68% over a 30-year career; based on rates that vary by year of service and are compounded annually
Investment Rate of Return	7.0%
Mortality	RP-2000 Combined Healthy Mortality projected to 2010 by Scale AA for healthy lives; RP-2000 Disabled Mortality projected to 2010 by Scale AA for disabled lives

The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>30 Year 2014 Long-Term Expected Real Rate of Return</u>
Private Core Real Estate	5.00%
Master Limited Partnerships	6.00%
Core Fixed Income	1.75%
Core Plus Income	2.25%
International Equity (AWI ex US)	5.81%
Domestic Equity (Russell 3000)	4.50%

Discount rate: The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The GASB 67 depletion schedule, as prepared by the actuary based on those assumptions, was presented for 99 years. The projected benefit payments ended by year 82 and the pension plan's fiduciary net position was projected to be available to make all projected future payments and administrative expenses of current plan members. Therefore, a blended rate was not required under GASB 67 and the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the System, calculated using the discount rate of 7.0 percent, compared to the System's net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

FINANCIAL SECTION

Notes to Financial Statements

Note 4. Actuarial Assumptions and Contributions Made, continued:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
System's net pension liability	\$ 285,502,068	\$ 161,287,252	\$ 54,715,590

The actuarial assumptions above are based on the presumption that the System will continue indefinitely. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial accrued liability.

Note 5. Deposits and Investments

Deposits: The System's entire bank balance was covered by federal depository insurance or commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Virginia Security for Public Deposits Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Virginia Security for Public Deposits Act and for notifying local governments of compliance by banks. The System's policy is to maintain all accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Sec 2.2-4400 et. seq. of the Code of Virginia. Cash equivalents amounting to \$25,464,059 consisted of \$15,064,059 in short-term investments and \$10,400,000 in a Citigroup repurchase agreement.

Investments: The Board of Trustees of the System has full power to invest and reinvest the trust funds in accordance with Section 51.1-124.30 of the Code of Virginia (1950), as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such instruments so as to minimize the risk of large losses unless under the circumstances, it is clearly prudent not to do so. The following was the Board's adopted asset allocation policy as of June 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed Income	35%
Domestic equity	33%
International equity	22%
Real estate	5%
Master limited partnerships	5%

Custodial credit risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Equity and fixed income investments are not insured and are registered in the name of the System and held by State Street Bank as custodian. The System's policy is that all securities purchased by or for the System be properly and clearly labeled as an asset of the System and held in safekeeping by a third party custodial bank or institution in compliance with Section 2.2-4515 of the Code of Virginia.

Interest rate risk: The System has outlined a policy on duration to help manage its interest rate risk. The Investment Policy Statement outlines "duration" as the weighted average effective duration of each Account's fixed income portfolio, including cash equivalents. The policy states that the duration of the fixed income portfolio shall be within +/- two years relative to the Barclays Capital Aggregate Bond Index. The System does not have a policy regarding interest rate risk.

FINANCIAL SECTION

Notes to Financial Statements

Note 5. Deposits and Investments, continued:

Segmented Time Distribution:

June 30, 2014 Investment Type	Fair Value	Investment Maturity				
		Less 1 yr	1-3 yrs	3-6 yrs	6-10 yrs	10 yrs +
Corporate Debt	\$ 33,744,426	\$ 7,475,922	\$ 18,552,020	\$ 3,988,922	\$ 2,156,404	\$ 1,571,158
Futures/Options/Swaps	837,853	96,044	(218,196)	799,721	(9,628)	169,912
U.S. Government securities	18,904,914	-	18,904,914	-	-	-
Municipals	3,622,769	-	-	-	-	3,622,769
Asset backed securities	8,449,388	134,266	1,939,608	1,284,108	1,003,347	4,088,059
Mortgage backed securities	41,592,218	-	39,243	411,947	3,326,439	37,814,589
Foreign government securities	40,177,904	685,498	22,210,854	1,382,838	3,793,829	12,104,885
Common stock	8,546,619	N/A	N/A	N/A	N/A	N/A
Master limited partnerships	56,419,474	N/A	N/A	N/A	N/A	N/A
Domestic equity funds	579,178,189	N/A	N/A	N/A	N/A	N/A
Fixed income funds	180,150,220	N/A	N/A	N/A	N/A	N/A
Real estate funds	50,977,415	N/A	N/A	N/A	N/A	N/A
Totals	\$1,022,601,389	\$ 8,391,730	\$61,428,443	\$7,867,536	\$10,270,391	\$59,371,372

Notes: Corporate debt includes all Corporate Floating Rate Notes; Floating Rate Mortgages are included in the Non-Agency Mortgage Section. Fixed Income Funds include PIMCO sector funds, and SSgA fixed income funds.

Foreign currency risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a formal policy; however, the System manages its exposure to fair value loss by requiring its international securities investment managers to maintain diversified portfolios by issuer to limit foreign currency and security risk. The System's exposure to foreign currency risk is presented on the following table.

June 30, 2014

Currency	Fixed Income
Australian Dollar	\$ 1
Brazilian Real	(8,228)
Canadian Dollar	3,271,769
Euro Currency	24,264,895
Japanese Yen	72
Mexican Peso	185,969
Pound Sterling	99,050
Totals	\$ 27,813,528

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings, and Standard and Poor's (S&P's) are not permitted without the written permission of the Board. PIMCO has been given the authority by the Board to invest 20% of their portfolio in below investment grade securities.

The System invests in certain derivatives including futures, swaps and options. Investments in derivatives with a fair value of \$1,334,935 were held at June 30, 2014 and are included in reported investments. For accounting purposes, all derivative instruments are considered to be investments and not hedges. The System primarily enters into derivative transactions in order to manage risks from exposure to foreign currency rate fluctuation and to shorten the duration of the fixed income investment portfolio.

FINANCIAL SECTION

Notes to Financial Statements

Note 5. Deposits and Investments, concluded:

The System's rated debt investments as of June 30, 2014 were rated by S&P's and/or an equivalent national rating organization and the ratings are presented below using the S&P's credit quality rating scale.

June 30, 2014

Fair Quality Rating	Corporate Bonds	Mortgages Backed Securities	Foreign Government	Asset Backed Securities	U.S. Government Securities	Municipals	Common Stock	Master Limited Partnerships	Futures/Options/ Swaps	Fixed Income/Equity/ Real Estate Funds
AAA	\$ -	\$ 663,492	\$ -	\$ 53,572	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
AA+	201,722	14,096	-	4,227,063	-	-	-	-	-	-
AA	-	1,923,250	-	-	-	594,100	-	-	-	-
AA-	1,006,880	-	1,532,443	-	-	1,494,185	-	-	-	-
A+	3,302,931	47,130	214,038	-	-	225,862	-	-	-	-
A	4,681,213	19,670	-	-	-	855,690	-	-	-	-
A-	8,418,806	-	-	-	-	-	-	-	-	-
BBB+	3,904,217	-	-	-	-	452,932	-	-	-	-
BBB	-	-	-	-	-	-	-	-	-	-
BBB-	2,125,008	108,262	-	-	-	-	-	-	-	-
BB+	-	-	-	-	-	-	-	-	-	-
BB	5,544,572	-	-	-	-	-	-	-	-	-
BB-	1,248,000	-	-	-	-	-	-	-	-	-
B+ and below	791,000	787,516	-	43,557	-	-	-	-	-	-
NR	2,520,077	38,028,802	38,431,423	4,125,196	18,904,914	-	8,546,619	56,419,474	837,853	810,305,824
Totals	\$33,744,426	\$41,592,218	\$40,177,904	\$8,449,388	\$18,904,914	\$3,622,769	\$8,546,619	\$56,419,474	\$ 837,853	\$810,305,824

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a system's investment in a single issuer. The System's formal policy governing concentration of credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings and S&P's are not permitted. No more than 20% of each account's fixed income portfolio, including cash equivalents, shall be invested in bonds rated below Baa (1, 2, and 3) or BBB (+ or -). Upon written request from the manager, the board will consider allowing more than 20% in these ratings and the purchase of bonds rated below Baa3 or BBB-.

The following table presents the fair value of investments that represent 5% or more of the System's net assets at June 30, 2014:

Investment	Amounts
SSgA Passive Bond Market Index Non-Lending Fund	\$126,985,317
SSgA MSCI All Country World Index Ex-U.S. Non-Lending Fund	\$231,156,710
SSgA Russell 3000 Index Fund	\$348,021,479

FINANCIAL SECTION

Notes to Financial Statements

Note 6. Transactions with City of Norfolk

The System reimburses the City for all administrative costs related to the System's operations. The costs reimbursed for the year ended June 30, 2014 were \$412,809.

Note 7. Income Tax Status

The Internal Revenue Service has ruled in a determination letter dated October 18, 2012 that the System qualifies under Section 401-1(b)(3) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. Although the Plan has been amended since receiving the determination letter from the Internal Revenue Service, the System management believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

Note 8. Subsequent Events

On May 20, 2014, as part of the adoption of the City of Norfolk's FY15 Operating Budget, the City Council approved Ordinance Number 45,563, effective January 8, 2015, that will require all System members to pay contributions on a salary reduction basis in the amount of 5% of earnable compensation, with the exception of City Council members hired before October 5, 2010. Employees of the Norfolk Community Services Board at June 30, 2012 who became City employees on July 1, 2012 will also be required to pay member contributions effective January 8, 2015. Upon vesting, member contributions become an asset of the System to be used to pay benefits under the System. In the event of death or departure prior to retirement or vesting, the Board of Trustees, on July 2, 2014, elected to lower the interest rate paid on mandatory contributions from 4% to an interest rate equivalent to the 12-month CD instrument at the beginning of each fiscal year.

The City Council, on May 20, 2014, also adopted Ordinance Number 45,566 that established a Deferred Retirement Option Program (DROP) for policemen and firemen who are eligible for a normal service retirement, effective January 1, 2015. The program period will not exceed four (years) and will provide for a seventy percent (70%) deferment of retirement allowances, to be paid in a lump, at the end of the program period.

FINANCIAL SECTION

Required Supplementary Information (Unaudited)

Schedule of Changes in Net Pension Liability and Related Ratios

	<u>June 30, 2014</u>
Total Pension Liability	
Service Cost	\$ 24,578,758
Interest	80,203,196
Change in Benefits	20,689,842
Change in Assumptions	-
Differences between Expected and Actual Experience	(10,654,079)
Benefit Payments, Including Refunds of Member Contributions	(77,065,376)
Net Change in Total Pension Liability	\$ 37,752,341
Total Pension Liability - Beginning	\$ 1,159,713,871
Total Pension Liability - Ending (a)	\$ 1,197,466,212
 Plan Fiduciary Net Position	
Contributions - Employer	\$ 42,330,492
Contributions - Employee	1,671,644
Net Investment Income	157,291,834
Benefit Payments, Including Refunds of Member Contributions	(77,065,376)
Administrative Expenses	(412,809)
Net Change in Plan Fiduciary Net Position	\$ 123,815,785
Plan Fiduciary Net Position - Beginning	\$ 912,363,175
Plan Fiduciary Net Position - Ending (b)	\$ 1,036,178,960
 Plan Net Pension Liability - Ending (a) - (b)	161,287,252
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 86.53%
 Covered-Employee Payroll	 \$ 182,298,248
 Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	 88.47%

See accompanying independent auditor's report.

FINANCIAL SECTION

Notes to Required Supplementary Information (Unaudited)

Changes of benefits. Additional liabilities derived as a result of 5% pay increase to members for purposes of paying 5% member contributions; Voluntary Retirement Incentive Program; a one-time payment to 787 eligible retirees; and new Deferred Retirement Option Program for public safety members.

Methods and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Closed, 20-Year Layers
Asset Valuation Method	3-Year Smoothed Value
Inflation	3.0%
Salary Increases - General Employees	Average of 5.64% over a 30-year career; based on rates that vary by year of service and are compounded annually
Salary Increases - Public Safety Employees	Average of 6.68% over a 30-year career; based on rates that vary by year of service and are compounded annually
Investment Rate of Return	7.0%

FINANCIAL SECTION

Required Supplementary Information

Schedule of Employer Net Position and Related Ratios (Unaudited) Last 10 Fiscal Years

Year	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Plan Fiduciary Net Position as a Percentage of Total Pension Liability	Covered-Employee Payroll	Plan Net Pension Liability as a Percentage of Covered-Employee Payroll
2014	\$ 1,197,466,212	\$ 1,036,178,960	\$ 161,287,252	86.53%	\$ 182,298,248	88.47%
2013	N/A	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A	N/A	N/A
2006	N/A	N/A	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A	N/A

N/A - Information for fiscal years prior to the adoption of GASB 67 is not available in this format.

Schedule of Employer's Contributions Last 10 Fiscal Years

Year	Actuarially Determined Contribution*	Employer Contributions*	Employee Contribution	Total Excess Contribution	Covered-Employee Payroll	Contribution as a Percentage of Covered-Employee Payroll
2014	\$ 42,330,492	\$ 42,330,492	\$ 1,671,644	\$ (1,671,644)	\$ 182,298,248	23.22%
2013	41,466,456	41,466,456	1,007,140	(1,007,140)	184,061,572	22.53%
2012	42,828,229	42,828,229	593,956	(593,956)	167,592,964	25.55%
2011	35,515,472	35,515,472	140,524	(140,524)	170,921,920	20.78%
2010	28,278,984	28,278,984	-	-	175,178,794	16.14%
2009	25,667,556	25,667,556	-	-	179,591,163	14.29%
2008	25,135,944	25,135,944	-	-	175,390,364	14.33%
2007	25,728,228	25,728,228	-	-	168,130,339	15.30%
2006	23,652,756	23,652,756	-	-	159,278,750	14.85%
2005	23,469,744	23,469,744	-	-	160,224,137	14.65%

** The actuarially determined contribution and the employer contributions were adjusted for years prior to 2014 to retrospectively apply the timing of recognition under GASB 67*

See accompanying independent auditors' report.

FINANCIAL SECTION

Required Supplementary Information (Unaudited)

Calculation of a Money-Weighted Rate of Return

	Plan Investment/Net External Cash Flows (a)	Periods Invested (b)	Period Weight (c) = (b) / 12	(d) = (a) x (1+Rmw)^c
Beginning value - July 1	\$ 925,523,365	12	1.00	\$ 1,058,613,625
Monthly net external cash flows:				
July	(2,600,000)	11	0.92	\$ (2,940,769)
August	(2,600,000)	10	0.83	\$ (2,908,027)
September	(2,700,000)	9	0.75	\$ (2,986,251)
October	(2,800,000)	8	0.67	\$ (3,062,373)
November	(3,000,000)	7	0.58	\$ (3,244,582)
December	(3,000,000)	6	0.50	\$ (3,208,458)
January	(2,300,000)	5	0.42	\$ (2,432,430)
February	(2,800,000)	4	0.33	\$ (2,928,249)
March	(2,900,000)	3	0.25	\$ (2,999,063)
April	(3,000,000)	2	0.17	\$ (3,067,936)
May	(3,000,000)	1	0.08	\$ (3,033,778)
June	(3,200,000)	0	0.00	\$ (3,200,000)
Ending value - June 30	\$ 1,022,601,389			

Schedule of Investment Returns

Fiscal Year	Money-Weighted Rate of Return
2014	14.38%
2013	N/A
2012	N/A
2011	N/A
2010	N/A
2009	N/A
2008	N/A
2007	N/A
2006	N/A
2005	N/A

See accompanying independent auditors' report.

FINANCIAL SECTION

Other Supplementary Information (Unaudited)

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Administrative Expenses

Year Ended June 30, 2014

Personal services:

Staff salaries	\$ 163,897
Benefits	<u>70,875</u>
Total personal services	<u>234,772</u>

Professional services:

Actuarial fees	67,776
Audit fees	<u>26,419</u>
Total professional services	<u>94,195</u>

Communication:

Travel and training	1,151
Postage and shipping	<u>20,528</u>
Total communication	<u>21,679</u>

Miscellaneous:

Supplies and equipment	11,572
Other	<u>50,591</u>
Total miscellaneous	<u>62,163</u>

Total administrative expenses	<u><u>\$ 412,809</u></u>
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See accompanying independent auditors' report.

FINANCIAL SECTION

Other Supplementary Information (Unaudited)

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Investment Expenses

Year Ended June 30, 2014

Investment manager fees	\$ 1,578,368	
Total investment manager fees		\$ 1,578,368
Custody and investment consultant fees:		
Investment consultant fees	\$ 189,480	
Custody fees	<u>134,086</u>	
Total custody and investment consultant fees		<u>323,566</u>
Total investment expenses		<u>\$ 1,901,934</u>

See accompanying independent auditors' report.

Investment Section (Unaudited)

Investment Performance, Policy, Statistics, and Activity

This section was prepared by Summit Strategies Group, investment consultant to the System, and a Securities and Exchange Commission registered investment adviser under the Investment Advisers Act of 1940.

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and return sought to ensure the long-term health of the System. The System has adopted an investment policy that works to control the extent of the downside risk to which assets are exposed while maximizing the potential for long-term increase in the value of the assets.

Investment Objectives

The Board of Trustees for the Employees' Retirement System has adopted investment policies and guidelines, which outline the System's investment goals and objectives. The Statement of Investment Policy contains a statement of investment goals and objectives, general investment principles, and guidelines. The general investment goals of the System are broad in nature. The primary objectives are to efficiently allocate and manage the assets dedicated to the payment of Plan benefits and administrative expenses. The following goals, consistent with the above-described purpose, are adopted:

- The overall goal of the System's investment portfolio is to provide a retirement benefit for the employees of the City of Norfolk, Virginia. This will be accomplished through a carefully planned and executed long-term investment program.
- The total portfolio over the long term will be expected to earn a return that equals or exceeds:
 1. The rate of inflation, as measured by the Consumer Price Index, plus 2.5% per year.
 2. The return of a target policy index ("Target Policy") comprised of 36% Russell 3000 Index, 24% MSCI ACWI ex US Index, and 40% Barclays Capital Aggregate Bond Index.
 3. The return of a Strategy Index; such index being comprised of the return of the various broad market benchmarks assigned to each manager or other indices representing each asset class, each weighted to reflect the target asset allocation.
 4. The actuarially assumed investment rate of return.
 5. For the aggregate domestic equity, international equity, fixed income, Real Estate, and Master Limited Partnership components of the Fund, the return of the Russell 3000, MSCI ACWI ex US, Barclays Capital Aggregate Bond, NCREIF – ODCE, and Alerian MLP Total Return indices, respectively.

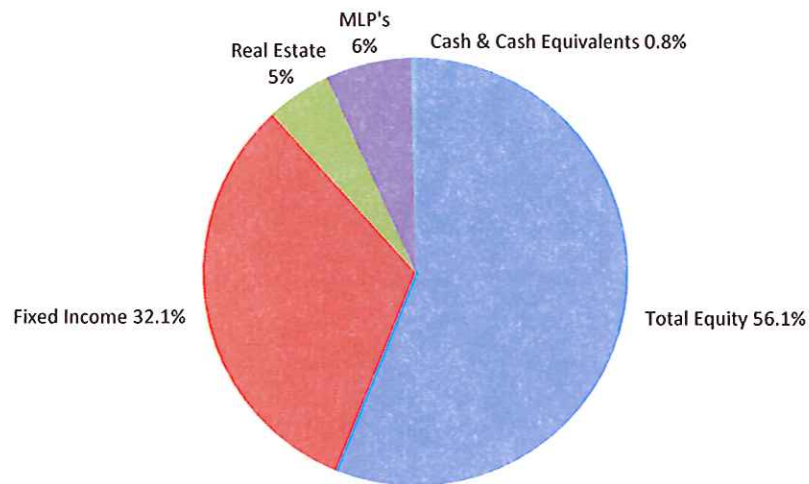
Asset Allocation

The System adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- Historical and expected long-term capital market risk and return behavior;
- Projected assets, liabilities, benefit payments, and contributions provided by System's actuary;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The specific investment objectives set forth in the Statement of Investment Policy.

The System will be diversified both by asset class (e.g., common stocks, bonds, cash) and within asset classes (e.g., within common stocks by economic sector, industry, quality, and market capitalization). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total System.

Asset Allocation by Asset Class as of June 30, 2014



Total Equity	\$ 579,178,189
Fixed Income	331,886,598
Real Estate	50,977,415
MLP's	66,964,685
Cash and Equivalents	3,854,049
(excludes manager cash)	
Total	<u><u>\$ 1,032,860,936</u></u>

Asset Allocation as of June 30, 2014 (concluded)

Total net assets market value	\$1,032,860,936
Adjustments to Reconcile Statement of Plan Asset Investments Total:	
Total Cash and Cash Equivalents	(25,103,898)
Receivable for Investments Sold	(5,491,241)
Interest Receivable	(1,233,924)
Other Receivables	(106,404)
Interest Payable – Short Positions	12,576
Payable for Investments Purchased	21,577,701
Unrealized Appreciation (Depreciation):	
on Foreign Cash Positions	(838)
on Receivables	62,499
on Forward Contracts	<u>23,981</u>
Total Investments Reconciled to the Statement of Plan	
Net Position (See page 17)	<u>\$1,022,601,389</u>

Investment Managers and Investment Assignments as of June 30, 2014

	Market Value	% of Portfolio
SSGA Russell 3000	\$ 348,021,479	33.7%
SSGA MSCI ACWI-ex US Index	231,156,710	22.4%
PIMCO Total Return	204,901,281	19.8%
SSGA Bond Market Index	126,985,317	12.3%
JP Morgan Asset Management Strategic Property Fund	28,774,648	2.8%
UBS Trumbull Property Fund	22,202,767	2.1%
Tortoise Capital Advisors	34,527,620	3.3%
Harvest MLP	32,437,065	3.1%
Cash Holding Account	3,854,049	0.4%
Total *	\$ 1,032,860,936	100.0%

*See reconciliation of Statement of Net Position above.

Asset Allocation Comparison as of June 30, 2014

	Equity Commitment	Fixed Income Commitment	Total Other *	Percent Total
Total Fund	56.1%	32.1%	11.8%	100%
Median All Public Plans	59.1%	30.9%	10.0%	100%

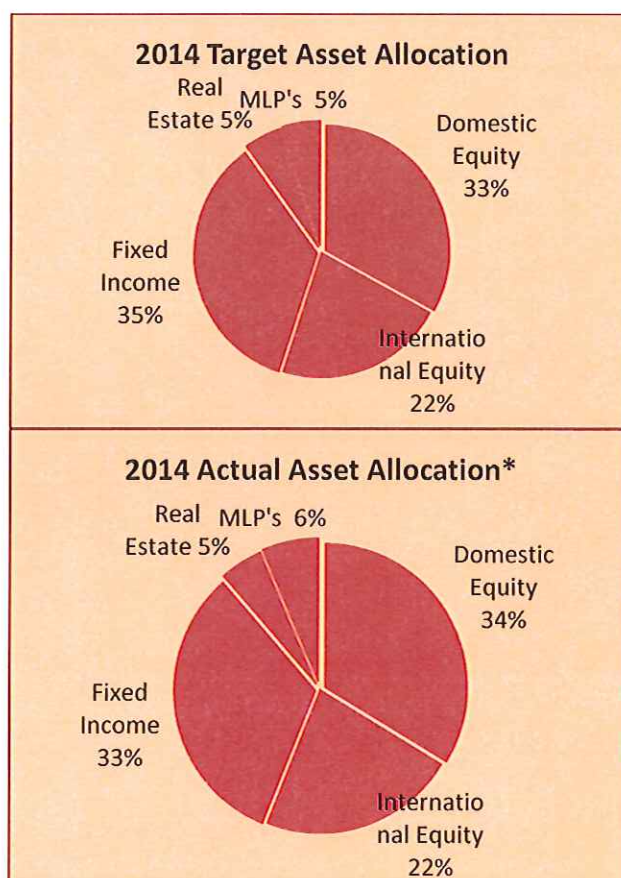
* Includes cash and alternative asset classes such as real estate, private equity, and hedge funds.

Target Asset Allocation

The target asset allocation for the investment portfolio is determined by the Board of Trustees to facilitate the achievement of the investment program's long-term investment objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance over the long run, the System's assets shall be divided into the following asset classes:

Asset Class	Minimum Percentage	Maximum Percentage	Target Percentage
Equities	50%	60%	55%
US Equity	28%	38%	33%
International Equity	17%	27%	22%
Fixed Income	30%	40%	35%
Real Estate	0%	10%	5%
MLP's	0%	10%	5%

Formal asset allocation studies will be conducted at least every five years, with annual evaluations of the validity of the adopted asset allocation based on updated return projections. Any change in capital market assumptions or liabilities will require consideration of revision to the asset allocation policy.



* Fixed income includes 37 basis points of cash and cash equivalents.

Investment Performance Summary

For the Periods Ended June 30, 2014

Account	1 Year	2 Years	3 Years	5 Years
Equity				
SSGA Russell 3000	25.19	23.31	16.46	19.34
<i>Russell 3000 Index</i>	25.22	23.33	16.46	19.33
Total Domestic Equity	25.19	23.31	16.46	19.34
<i>Domestic Equity Policy Index*</i>	25.22	23.33	16.46	19.33
SSGA MSCI ACWI-ex US Index	22.05	17.86	5.94	11.29
<i>MSCI AC World ex USA (Net)</i>	21.75	17.62	5.73	11.11
Total International Equity	22.05	17.86	5.94	11.29
<i>International Equity Policy**</i>	21.75	17.62	5.73	11.11
Total Equity	23.89	21.13	12.28	16.13
<i>Total Equity Policy Index***</i>	23.86	21.08	12.13	16.01
Fixed Income				
PIMCO Total Return	4.67	3.01	3.92	6.41
<i>Barclays Aggregate</i>	4.37	1.81	3.66	4.85
SSGA Bond Market Index	4.32	1.83	3.66	4.86
<i>Barclays Aggregate</i>	4.37	1.81	3.66	4.85
Total Fixed Income	4.31	2.06	3.65	5.95
<i>Barclays Capital Aggregate</i>	4.37	1.81	3.66	4.85
Real Estate				
JP Morgan Asset Management Strategic Property Fund	12.98	13.12	12.43	N/A
<i>NCREIF Fund Index - ODCE [M]</i>	12.75	12.46	12.45	N/A
UBS Trumbull Property Fund	9.09	8.82	N/A	N/A
<i>NCREIF Fund Index - ODCE [M]</i>	12.75	12.46	N/A	N/A
Total Real Estate	11.24	11.13	11.06	N/A
<i>NCREIF Fund Index – ODCE</i>	12.75	12.46	12.45	
MLP's				
Harvest MLP	33.15	N/A	N/A	N/A
<i>Alerian MLP</i>	21.57	N/A	N/A	N/A
Tortoise Capital Advisors	38.05	N/A	N/A	N/A
<i>Alerian MLP</i>	21.57	N/A	N/A	N/A
Total MLP	35.63	N/A	N/A	N/A
<i>Alerian MLP</i>	21.57			
Total Fund Composite	17.30	14.66	9.75	12.70
<i>Total Fund Policy Index****</i>	15.82	13.09	8.95	11.74

* Domestic Equity Policy Index as of June 30, 2014 = 100% Russell 3000 Index

** International Equity Policy Index as of June 30, 2014 = 100% MSCI AC World ex US Index (Net)

*** Total Equity Policy Index as of June 30, 2014 = 60% Russell 3000 Index and 40% MSCI AC World ex US Index (Net)

**** Total Fund Policy Index as of June 30, 2014 = 36% Russell 3000, 24% MSCI AC World ex US Index (Net), and 40% Barclays Aggregate

Investment returns are time-weighted returns based on market value and net of investment management fees. The investment returns shown elsewhere in this report are net of all expenses paid by the System (investment management fees, custody and consultant fees, and administrative expenses).

Schedule of Broker Commissions

Broker selection is the responsibility of individual investment managers. Transactions and commission costs are monitored by State Street Bank (the custodian), the investment consultant, and System staff. The Plan added two MLP separate accounts and paid \$18,197.56 in commissions for the fiscal year 2013. The commissions decreased to \$9,147.64 for the fiscal year 2014.

List of Largest Assets as of June 30, 2014

Ten Largest Stock Holdings within the Domestic Equity (Commingled) Funds (by fair market value)

Stock	Shares	Fair Value
Apple Inc.	94,406	\$8,773,150
Exxon Mobil Corp	67,238	6,769,521
Microsoft Corp	129,334	5,393,228
Johnson & Johnson	44,081	4,611,754
General Electric & Co	157,004	4,126,065
Wells Fargo & Co.	74,775	3,930,174
Chevron Corp	29,808	3,891,434
Berkshire Hathaway Inc -CL B	28,656	3,626,703
JPMorgan Chase	59,302	3,416,981
Proctor & Gamble Co	42,369	3,329,780

Ten Largest Bond Holdings (by fair market value)

Bond	Interest Rate	Maturity Date	Par Value	Fair Value
PIMCO Short-Term *	N/A	N/A	\$ 5,275,428	\$50,907,882
US Treasury	0.0940%	Apr. 30, 2016	18,900,000	18,904,914
Citigroup Repurchase Agreement	0.1400%	Jul. 1, 2014	10,400,000	10,400,000
FNMA Single Family	5.0000%	Jul. 1, 2099	7,000,000	7,773,290
US Treasury Government TIPS	2.3750%	Jan. 15, 2027	6,112,340	7,500,514
FNMA Pool	5.5000%	Jun. 1, 2038	6,641,444	7,430,381
Italy Treasury	3.7500%	Aug. 1, 2016	3,600,000	5,244,393
Spain Treasury	3.3000%	Jul. 30, 2016	3,100,000	4,484,597
Spain Treasury	4.0000%	Jul. 30, 2015	3,000,000	4,268,874
FNMA Pool	4.5000%	Aug. 1, 2099	3,000,000	3,241,530

*These holdings represent investments in PIMCO's sector funds. Holdings for the sector funds and a complete list of portfolio holdings are available upon request.

Actuarial Section (Unaudited)



Actuary's Certification Letter

October 30, 2014

The Board of Trustees
Employees' Retirement System
of the City of Norfolk
Norfolk, Virginia 23510

The Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the Employees' Retirement System of the City of Norfolk (System) with respect to pension benefits.

Actuarial Valuation Used for Funding Purposes

Actuarial valuations of the Employees' Retirement System of the City of Norfolk are performed annually. The results of the latest actuarial valuation of the System, which we have prepared as of June 30, 2014, are summarized in this letter. Please refer to that valuation report for additional information related to the System.

The valuation reflects the benefits in effect on the valuation date and was prepared on the basis of the data submitted by the City of Norfolk and the actuarial assumptions as adopted by the Board of Trustees of the Employees' Retirement System, including a valuation interest rate assumption of 7% per annum, compounded annually. The actuarial cost method, the Entry Age Normal Cost Method, and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2014 actuarial valuation.

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Solvency Test
- Analysis of Financial Experience
- Summary of Benefits and Contribution Provisions

The financing objective of the Employees' Retirement System is to:

- a) fully fund the normal cost contribution for the current year determined under the funding method; and



Actuary's Certification Letter

The Board of Trustees
October 30, 2014
Page 2

b) amortize the unfunded accrued liability as of June 30, 2012 over a closed period of 20 years. Annual changes in the UAL due to Plan changes and gains and losses which have arisen subsequent to 2012, have been amortized over their own closed 20-year period. In performing the amortization calculation, payments are assumed to increase by 3% per annum.

The City's contribution appropriated for the fiscal year ended June 30, 2014 was determined based on the results of the June 30, 2013 valuation. The City's contribution amount was \$38,263,500. This amount was recognized as a receivable contribution as of June 30, 2014 for funding purposes. However, it was excluded for GASB 67 purposes since this amount isn't actually contributed until the fiscal year ending June 30, 2015. For GASB 67 purposes, City contributions of \$42,330,492 were recognized.

The results of the June 30, 2014 valuation determine the contribution appropriation for the fiscal year ending June 30, 2015, which will be presented in our valuation report subject to your approval.

As of June 30, 2014, the System's accrued liability was 84% funded based on the Actuarial Value of Assets, including the contribution for the fiscal year ended June 30, 2014. The accrued liability was 90% funded based on the Market Value of Assets.

Included in the valuation report are contribution and funding progress schedules prepared by the actuary.

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2014 actuarial valuation. Please refer to the valuation report for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2014 valuation report.

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Notes to the Schedule of Employer Contributions



Actuary's Certification Letter

The Board of Trustees
October 30, 2014
Page 3

Reliance on the Information Provided by the City and Compliance with ASOPs and GAAP

In preparing our valuations and schedules for the CAFR, we relied on information (some oral and some written) supplied by the City of Norfolk. This information includes, but is not limited to, the plan provisions, employee data and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

The current actuarial assumptions used for valuation purposes were adopted by the Board of Trustees and were first effective for the June 30, 2012 Actuarial Valuation. The most recent study of the System's experience, used in developing the current actuarial assumptions, was based on a period from July 2006 to June 2012. In our opinion, the actuarial assumptions used in the valuation are, in the aggregate, reasonable. Included in the valuation report is a schedule which presents an outline of the actuarial assumptions and methods used to prepare the actuarial valuation results. To the extent that future experience differs from the actuarial assumptions, the results will vary.

I hereby certify that, to the best of my knowledge, this certification letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. The schedules provided for financial reporting purposes have been prepared in accordance with our understanding of generally accepted actuarial principles as promulgated by the GASB. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.

This letter was prepared for the City of Norfolk Employees' Retirement System for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Respectfully submitted,
Cheiron



Fiona E. Liston, FSA, EA, MAAA
Principal Consulting Actuary



SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

Interest Rate:

7% per annum, compounded annually (adopted as of June 30, 2012).

Mortality:

Pre-Retirement: RP-2000 Combined Health Mortality projected to 2010 by Scale AA*

Health Annuitants: RP-2000 Combined Health Mortality projected to 2010 by Scale AA

Disableds: RP-2000 Disability Mortality projected to 2010 by Scale AA

- * 5% of deaths are assumed to be accidental for general employees;
50% of deaths are assumed to be accidental for firefighters and police.

Salary Increase:

Representative values are as follows:

Service	Annual Rate of Salary Increase	
	General	Firefighters and Police
0	7.12 %	11.24 %
1	6.97	8.15
2	6.81	7.63
3	6.66	7.63
4	6.50	7.63
5	6.35	7.63
10	5.85	7.63
15	5.70	7.33
20	5.26	5.78
25	4.74	4.55
30	4.23	4.55

The table above includes an annual inflation rate of 3.00%.

Withdrawal:

Service	Firefighters and Police	
	General	Police
0	15.00 %	10.00 %
1	13.00	9.00
2	11.00	8.00
3	9.00	7.00
4	9.00	6.00
5	7.50	5.00
10	2.50	2.80
15	2.50	1.00
20	2.50	1.00
25	1.00	1.00
30	1.00	1.00

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Disability:

Age	General*		Firefighters and Police**
	Male	Female	Unisex
20	0.07%	0.05%	0.04%
25	0.08	0.05	0.06
30	0.09	0.06	0.08
35	0.14	0.10	0.11
40	0.22	0.15	0.22
45	0.34	0.23	0.40
50	0.51	0.35	0.67
54	0.66	0.45	0.90
55	0.70	0.48	0.96
59	1.02	0.70	1.26

* 20% of General disabilities are assumed to be accidental.

** 70% of Police & Fire disabilities are assumed to be accidental.

Retirement:

General:

Age	Early Retirement	Normal Service Retirement
45	5.00 %	7.50 %
50	7.50	7.50
51	5.00	7.50
52	5.00	7.50
53	5.00	7.50
54	5.00	7.50
55	5.00	7.50
56	5.00	7.50
57	5.00	7.50
58	5.00	7.50
59	5.00	7.50
60		12.50
61		12.50
62		12.50
63		12.50
64		12.50
65		25.00
66		15.00
67		15.00
68		15.00
69		15.00
70		100.00

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Firefighters and Police Officers:

For those eligible for the Deferred Retirement Option Program (DROP):

Service	Rate of Retirement
20	2.50 %
21	3.00
22	3.50
23	4.00
24	5.00
25	35.00
26	35.00
27 and up	35.00

For those not eligible for the Deferred Retirement Option Program (DROP):

Service	Rate of Retirement
20	2.50 %
21	3.00
22	3.50
23	4.00
24	5.00
25	10.00
26	25.00
27 and up	10.00

In lieu of the rates above, any active participant at least age 65 are assumed to retire immediately.

NOTE: Rates apply to each member based on eligibility requirements as defined in the Summary of Benefit and Contribution Provisions.

Future Expenses:

The assumed interest rate is net of the anticipated investment and future administrative expenses of the Employees' Retirement System.

Loading or Contingency Reserves:

A load of 0.85% for General employees and 1.05% for Firefighters and Police is applied to retirement benefits for active employees to account for unused sick leave balances at time of retirement.

Marital Status:

65% of the General employees and 75% percent of the Firefighters and Police are assumed to be married, with males three-years older than females.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (concluded)

Methods

Actuarial Cost Method:

Entry Age Normal Cost Method. The unfunded actuarial liability (UAL) that arose from the offering of the Public Safety Retirement Enhancement Program is being amortized over a closed 20-year period commencing as of July 1, 2005. The UAL as of June 30, 2012 was amortized over a closed period of 20 years. Future annual changes in the UAL due to Plan changes and gains and losses will be amortized over its own closed 20-year period. All rates are developed using a level-percent of pay amortization method with a 3% per annum increase in the payments.

Asset Valuation Method:

The actuarial value of assets is determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow (contributions less benefit payments) of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation assets.

ACTUARIAL SECTION

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Census and Assets:

The valuation was based on members of the System as of June 30, 2014 and does not take into account future members. All census data were supplied by the Executive Secretary of the System and were subject to reasonable consistency checks. Asset data were supplied by the Executive Secretary and the accountants of the System.

General Employees:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2014	2,709	\$ 119,079,236	\$ 43,957	1.8%
2013	2,787	120,324,357	43,173	2.1
2012	2,517	106,447,927	42,292	0.7
2011	2,613	109,766,481	42,008	(0.1)
2010	2,683	112,857,502	42,064	(0.6)
2009	2,737	115,782,546	42,303	1.1
2008	2,731	114,324,832	41,862	1.7
2007	2,664	109,648,809	41,159	2.5

* Excludes 16 members on leave of absence on June 30, 2014.

Firefighters and Police Officer:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
2014	1,216	\$ 63,219,012	\$ 51,989	3.4%
2013	1,268	63,737,215	50,266	(0.2)
2012	1,214	61,145,037	50,367	0.8
2011	1,224	61,155,439	49,964	(2.8)
2010	1,232	63,321,292	51,397	0.6
2009	1,249	63,808,617	51,088	0.7
2008	1,204	61,065,532	50,719	3.0
2007	1,188	58,481,530	49,227	5.0

* Excludes 12 members on leave of absence on June 30, 2014.

Total:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2014	3,925	\$ 182,298,248	\$ 46,445	2.3%
2013	4,055	184,061,572	45,391	1.1
2012	3,731	167,592,964	44,919	0.8
2011	3,837	170,921,920	44,546	(0.4)
2010	3,915	175,178,794	44,746	(0.7)
2009	3,986	179,591,163	45,055	1.1
2008	3,935	175,390,364	44,572	2.1
2007	3,852	168,130,339	43,648	3.2

* Excludes 28 members on leave of absence on June 30, 2014.

ACTUARIAL SECTION

**SCHEDULE OF RETIREES AND BENEFICIARIES
ADDED TO AND REMOVED FROM ROLLS**

Year Ended June 30	Added to Rols		Removed from Rols		On Rols at Year-End			% Increase Average Allowance
	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance	Average Allowance	
2014	221	\$ 4,477,354	108	\$ 1,154,083	3,718	\$ 77,321,000	\$ 20,796	1.3%
2013	164	3,077,308	106	1,317,734	3,605	73,997,729	20,526	0.8%
2012	322	8,428,819	100	1,536,835	3,547	72,238,155	20,366	3.6%
2011	168	3,428,334	114	1,458,047	3,325	65,346,171	19,653	1.4%
2010	152	3,482,589	111	1,278,794	3,271	63,375,884	19,375	2.3%
2009	179	3,616,692	228	2,298,307	3,230	61,172,089	18,939	3.8%
2008	145	3,644,988	88	1,233,612	3,279	59,853,704	18,254	2.4%
2007	176	4,566,162	105	1,431,827	3,222	57,442,328	17,828	3.4%

Note: The amount added to the rolls includes additions and deletions due to COLAs, supplements, workers' compensation in addition to the annual allowance for new retirees.

The number of records removed from the rolls in 2009 includes 127 records which were excluded due to our recognizing that the valuation date was later than the "date beneficiary's benefits ended".

SOLVENCY TEST

The System's funding objective is to meet long-term benefit obligations through contributions that remain approximately level from year to year as a percentage of the members' payroll. If the contributions to the System are level in concept and soundly executed, the System will pay promised benefits when due; thus, providing the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short condition test is one means of checking a plan's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions, (2) the liabilities for future benefits to present retired lives, and (3) the employer-provided portion of liabilities for service already rendered by active members. In a plan that has been following the discipline of level percent of payroll financing, the active member contribution balances (Liability (1)), the liabilities for future benefits to present retired members (Liability (2)) will be fully covered by present assets, except in rare circumstances. In addition, the liabilities for service already rendered by active members (Liability (3)) will be at least partially covered by the remainder of present assets.

The relationship between accrued liabilities and net assets of the System for fiscal years ended June 30, 2007 through June 30, 2014 are presented as follows:

Valuation Date	(1)	(2)	(3)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirees, Vested Terms, Beneficiaries	Active Members (Employer Financed Portion)		(1)	(2)	(3)
2014 ⁽¹⁾	\$ 3,450,512	\$816,287,924	\$377,727,776	\$1,011,523,185	100.0%	100.0%	50.8%
2013	1,780,240	782,859,810	375,073,821	954,499,184	100.0%	100.0%	45.3%
2012 ⁽²⁾	769,704	768,508,092	375,128,834	923,198,558	100.0%	100.0%	41.0%
2011	196,733	658,831,846	404,945,415	831,975,004	100.0%	100.0%	42.7%
2010	54,808	637,488,648	409,218,088	817,698,124	100.0%	100.0%	44.0%
2009	72,008	617,813,260	411,732,258	885,609,003	100.0%	100.0%	65.0%
2008 ⁽³⁾	78,685	605,567,032	403,409,400	937,766,796	100.0%	100.0%	82.3%
2007 ⁽⁴⁾	83,376	585,584,308	386,563,802	925,821,257	100.0%	100.0%	88.0%

(1) 81 members retired under the Voluntary Retirement Incentive Program (VRIP) between July 1, 2013 and June 30, 2014.

(2) Retirees and beneficiaries as of June 30, 2011 were granted a permanent 2.0% supplemental benefit increase effective July 2012. 150 members retired under the Voluntary Retirement Incentive Program (VRIP) between July 1, 2011 and June 30, 2012.

(3) Retirees and beneficiaries as of May 1, 2007 were granted a permanent 2.0% supplemental benefit increase effective July 2008.

(4) Retirees and beneficiaries as of June 30, 2006 were granted a permanent 2.0% supplemental benefit increase effective July 2007.

ANALYSIS OF FINANCIAL EXPERIENCE

Gain or (Loss) for Year Ending June 30,				
Type of Activity	2011	2012	2013	2014
Investment income	\$(21,698,596)	\$ 31,495,079	\$ 97,241	\$ 31,459,638
Combined liability experience	<u>12,889,233</u>	<u>3,881,141</u>	<u>15,351,662</u>	<u>10,654,079</u>
Gain (loss) during year from financial experience	(8,809,363)	35,376,220	15,448,903	42,113,717
Non-recurring items	<u>3,202,603</u>	<u>(26,747,315)</u>	<u>(1,451,935)</u>	<u>(20,689,842)</u>
Composite gain (loss) during year	\$ (5,606,760)	\$ 8,628,905	\$ 13,966,968	\$ 21,423,875

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

The following is intended to summarize the key benefits valued in this valuation. Members of the System and other parties should not rely on this summary as a substitute for or interpretation of the laws and ordinances of the Norfolk City Code covering this retirement plan.

Membership

Any permanent regular full-time employee entering the service of the City of Norfolk is required to become a member of the Retirement System. Upon entering the System, members are classified according to their occupational group, either as general employees, firefighters, police officers, or paramedics.

Paramedics, formerly members of the General Employees Group, were reclassified as members of firefighters and police effective June 9, 1992. City Council members on or after July 1, 2001 are classified as members of firefighters and police.

Employees of the Norfolk Community Services Board became participants on July 1, 2012.

For each full calendar year beginning on or after January 1, 1997, any permanent part-time employees shall be members of and entitled to benefits in proportion to which their annual hours bear to that of full-time employees.

Benefits

Normal Service Retirement Allowance:

Eligibility:

The earlier of age 60 or 30 years of creditable service for general employees. The earlier of age 55 or 25 years of creditable service for firefighters, police officers, and paramedics. Mandatory retirement is age 65 for firefighters and police officers.

Employees Hired Before July 1, 1980:

For general employees, the pension earned is 2% of average final compensation for each year of creditable service.

Effective January 1, 1997 for general employees, the maximum number of years of creditable service is the greater of 35 years or the number of years of service as of December 31, 1996.

For firefighters, police officers, and paramedics, the pension earned is 2.5% of average final compensation for each year of creditable service up to a maximum of 65% of average final compensation.

Employees Hired on or After July 1, 1980:

For general employees, the pension earned is 1.75% of average final compensation for each year of creditable service up to a maximum of 35 years.

For firefighters, police officers, and paramedics, the pension earned is 2.5% of average final compensation for each year of creditable service up to a maximum of 65% of average final compensation.

"Average Final Compensation" means the average annual earnable compensation for the three years of creditable service which produces the highest average. Creditable service consists of membership service plus 100% of accumulated unused sick leave for all employees except firefighters. For firefighters, 46% of unused sick leave accumulated prior to July 1, 1985 and 100% of unused sick leave accumulated on and after July 1, 1985 is included.

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Early Service Retirement Allowance

Eligibility:

Within five years of eligibility for normal service retirement.

Amount:

Accrued service retirement allowance deferred to normal service retirement age. A member may elect to receive an immediate benefit equal to the accrued service retirement allowance reduced by $\frac{1}{4}$ of 1% for each month commencement date precedes the normal retirement date for general employees, and $\frac{1}{2}$ of 1% for each month commencement date precedes the normal retirement date for firefighters, police officers, and paramedics.

Vested Allowance

Eligibility:

Five years of creditable service.

Amount:

Accrued service retirement allowance deferred to normal retirement age. If not eligible for retirement, a member may elect to leave their contributions made prior to July 1, 1972 with interest, if any, in the System until normal service retirement date.

Ordinary Disability Retirement Allowance

Eligibility:

Five years of creditable service and total and permanent disability not due to an accident in the performance of duty.

Amount:

Accrued service retirement allowance with a minimum of 25% of average final compensation. The minimum cannot exceed the normal service retirement allowance based on average final compensation and creditable service projected to normal service retirement date.

Accidental Disability Retirement Allowance

Eligibility:

Total and permanent disability as a result of an accident in the performance of duty, regardless of length of service. Applications must be filed within six years from date of accident.

The disability of a firefighter, police officer, sheriff, or deputy sheriff caused by hypertension, heart disease, or respiratory disease is presumed to have been suffered in the line of duty unless the contrary is shown by medical evidence.

Amount:

The amount payable is 66 $\frac{2}{3}$ % of average final compensation.

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Ordinary Death Benefit

Eligibility:

Death in active service due to causes not the result of an accident in the performance of duty. Benefits are paid to a designated beneficiary or estate.

Amount:

All contributions, if any, made by the member with not less than one-half of the interest credited are paid. In addition, if the member had one year of creditable service if he became a member prior to July 1, 1979 and five years of creditable service if he became a member on or after July 1, 1979, an additional lump-sum benefit equal to 50% of their earnable compensation during the year immediately preceding their death is payable. If a member dies in service after the earlier of completion of 10 years of service or early service retirement eligibility and if the designated beneficiary for the lump-sum death benefit is the spouse, the spouse may elect to receive, in lieu of the lump sum death benefit, a monthly pension payable until death or remarriage. If the member was eligible for early or normal service retirement, the spouse's benefit is equal to one-half of the retirement allowance that would have been payable to the member had the member retired and immediately commenced payment. If the member was not eligible for early or normal service retirement, the spouse's benefit is equal to one-half of the normal service retirement allowance, which would have been payable to the member if he or she had been vested, such benefit to commence at the same time as the vested benefit would have been paid to the member. If the spouse dies or remarries before the youngest unmarried child attains age 18, the pension shall continue to the date that all the children have died, married, or attained age 18; whichever occurs first. If the spouse was receiving benefits on or before June 30, 1978, payments shall continue after remarriage with no further payments after death.

Accidental Death Benefit

Eligibility:

Death in active service resulting from an accident in the performance of duty within six years from the date of the accident. The death of a firefighter, police officer, sheriff, or deputy sheriff caused by hypertension, heart disease, or respiratory disease in the case of firefighters is presumed to have been suffered in the line of duty, unless the contrary is shown by medical evidence.

Amount:

Fifty percent of average final compensation is payable to spouse until death or remarriage. If there is no spouse or if spouse dies or remarries, benefit is payable to children under age 18 or dependent parents. In addition, all contributions, if any, made by the member with not less than one-half of the interest credited are paid to their designated recipient or estate. If there is no spouse, a lump-sum benefit equal to 50% of their earnable compensation during the year immediately preceding their death is payable.

Offset on Account of Workers' Compensation:

All benefits paid under the provisions of any workers' compensation act or any similar law to any member or beneficiary, or to the dependents of any member or beneficiary on account of any disability or death are in such manner as the Board determines, offset against any benefits provided from City contributions to the Employees' Retirement System.

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Death Benefit After Retirement

Eligibility:

Death of a retired member receiving retirement allowance payments and who completed five years of creditable service if they became a member after July 1, 1979 or of a spouse receiving an accidental death benefit.

Amount:

Lump sum equal to one-half of the average final compensation on which the retirement allowance of the deceased retired member or spouse was based. The lump sum is payable to the surviving spouse, to unmarried children under age 18, or unmarried children over age 18 who are physically or mentally unable to make a living.

In the case of a retired member who dies and leaves a surviving spouse, the spouse may elect to receive, in lieu of the lump-sum death benefit, a monthly benefit payable until death or remarriage, which is equal to one-half of the retirement allowance, which the deceased member was receiving at the time of their death, provided the member had not made an optional election. If the spouse dies or remarries before the youngest unmarried child attains age 18, the pension will continue to the date that all the children have died, married, or attained age 18, whichever occurs first. If the spouse was receiving payments on or before June 30, 1978, payments shall continue after remarriage with no further payments after death.

Return of Contributions

Eligibility:

Termination of membership prior to death.

Amount:

If not eligible for a retirement allowance, all contributions with not less than one-half of interest credited. If eligible for normal or early service, ordinary disability, accidental disability, or vested retirement allowance, their contributions, if any, with not less than one-half of the interest credited. The member may elect, prior to the commencement of their retirement allowance, to receive an annuity which is the actuarial equivalent of their accumulated contributions.

Normal and Optional Forms of Benefits:

Normal Life	Life Annuity
Option A	A reduced pension with the provision that at death the reduced pension will be continued throughout the life of the designated beneficiary.
Option B	A reduced pension with the provision that at death, one-half of the reduced pension will be continued throughout the life of the designated beneficiary.
Option C	A reduced pension with the provision that at death some other benefit approved by the Board of Trustees will be payable.

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (concluded)

Return of Contributions, (concluded)

Contributions

By Members	5% of pay for anyone hired on or after October 5, 2010. Effective January 8, 2015, all members (except City Council members hired before October 5, 2010) will be required to contribute 5% of pay.
By City	Annual contributions actuarially computed to be required to cover the cost of benefits of the System.

Both Member and City contributions will continue to be made throughout the DROP period for any eligible participant who has elected to participate in DROP.

Deferred Retirement Option Program (DROP)

Eligibility:

Any police officer or fireman member in service who attains his or her Normal Retirement Age may elect to participate.

Amount:

The DROP period may be elected by the police officer or fireman member but shall not exceed four years. During the DROP period, 70% of the participant's monthly retirement allowance shall be paid to the DROP account. No interest shall accrue on this account during the DROP period. At the end of the DROP period, the participant will receive a lump sum of the DROP account and shall begin receiving his or her full monthly benefit payment as a retired member.

Both member and City contributions will continue to be made throughout the DROP period.

Changes in Plan Provisions

Effective July 1, 2014, the City gave the Board the authority the change the interest rate applicable to member contributions. Subsequently, the Board changed the rate to be the national 12-month CD rate.

Effective July 1, 2014, 787 in pay participants received a one-time supplemental payment of \$300. Eligible participants were those receiving retirement benefits for a year (retired on or before June 30, 2013) with 15 or more years of creditable service or disability retirement who receive less than \$15,730 in annual retirement benefits and workers' compensation benefits.

Effective January 8, 2015, all members will be required to contribute 5% of pay, with exception to City Council members hired before October 5, 2010. To mitigate the impact of this change, affected participants will receive a one-time increase of 5% in pay at such time.

Effective January 1, 2015, any police officer or fireman member in service who has attained Normal Retirement Age may elect to participate in the Deferred Retirement Option Program (DROP) described above.

Statistical Section (Unaudited)

About the Statistical Section

This section provides the reader with detailed information about the economics and demographic trends experienced over the past eight years in the System.

Schedule of Additions by Source and Deductions by Type displays the changes in plan net assets as a result of payments made to and by the System.

Schedule of Benefit Payments by Type identifies the type of payments made to beneficiaries and former employees.

Schedule of Retired Members by Type of Benefit identifies the range of benefit payments made to retirees sorted by plan and type of retirement for the current fiscal year.

Schedule of Average Benefit Payments presents the average monthly benefit paid as of June 30, 2014.

STATISTICAL SECTION

ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE

Schedule of Additions by Source

Fiscal Year Ended June 30	Employee Contributions	Employer Contributions ¹	% of Covered Payroll	Total Net Investment Income (Loss)	Additions
2014	\$ 1,671,644	\$ 42,330,492	23.84 %	\$ 157,291,834	\$ 201,293,970
2013	1,007,140	41,466,456	25.11	100,593,973	143,067,569
2012	593,956	42,828,229	24.80	3,252,793	46,674,978
2011	140,524	35,515,472	19.98	155,818,865	191,474,861
2010	-	28,278,894	16.16	92,247,887	120,526,781
2009	-	25,667,556	14.90	(131,184,987)	(105,517,431)
2008	-	25,135,944	15.98	(48,428,455)	(23,292,511)
2007	-	25,728,228	14.29	128,724,819	154,453,047

¹ Prior years have been restated to remove receivable employer contributions in accordance with GASB 67.

Schedule of Deductions by Type

Fiscal Year Ended June 30	Benefit Payments	Refund of Contributions	Administrative Expenses	Total Deductions
2014	\$ 76,784,988	\$ 4,144	\$ 412,809	\$ 77,478,185
2013	74,190,481	6,037	540,620	74,737,138
2012	71,021,815	24,879	535,826	71,582,520
2011	65,839,610	16,685	566,459	66,422,754
2010	63,280,585	26,271	589,223	63,896,079
2009	61,024,897	22,394	707,784	61,755,075
2008	58,264,017	26,228	600,065	58,890,310
2007	55,491,006	24,794	734,282	56,250,082

Total Change in Net Plan Position

Fiscal Year Ended June 30*	Total Change in Net Plan Position
2014	\$ 123,815,785
2013	69,194,467
2012	(26,269,315)
2011	132,364,864
2010	63,867,280
2009	(164,661,078)
2008	(81,651,209)
2007	97,610,681

*Contributions were made in accordance with the actuarially determined contribution requirement, only fiscal year 2014 was adjusted for the implementation of GASB 67.

STATISTICAL SECTION

Schedule of Benefit Payments by Type Annual Allowances Scheduled to be Paid in Ensuing Fiscal Year

General

As of June 30	Service Retired Members	Contingent Annuityants	Disabled Annuityants	Total
2014	\$ 36,643,000	\$ 2,651,000	\$ 2,788,000	\$ 42,082,000
2013	34,407,000	2,647,000	2,871,000	39,925,000
2012	33,871,000	2,720,000	2,907,000	39,498,000
2011	29,349,000	2,313,000	2,776,000	34,438,000
2010	28,343,000	2,268,000	2,776,000	33,387,000
2009	27,437,000	2,252,000	2,718,000	32,407,000
2008	26,435,000	2,509,000	2,704,000	31,648,000
2007	25,534,000	2,279,000	2,683,000	30,496,000

Firefighters and Police

As of June 30	Service Retired Members	Contingent Annuityants	Disabled Annuityants	Total
2014	\$ 30,346,000	\$ 1,944,000	\$ 2,949,000	\$ 35,239,000
2013	29,227,000	1,901,000	2,945,000	34,073,000
2012	27,940,000	1,855,000	2,945,000	32,740,000
2011	26,547,000	1,554,000	2,807,000	30,908,000
2010	25,613,000	1,547,000	2,829,000	29,989,000
2009	24,320,000	1,531,000	2,914,000	28,765,000
2008	23,682,000	1,594,000	2,929,000	28,205,000
2007	22,927,000	1,470,000	2,549,000	26,946,000

Total

As of June 30	Service Retired Members	Contingent Annuityants	Disabled Annuityants	Total*
2014	\$ 66,989,000	\$ 4,595,000	\$ 5,737,000	\$ 77,321,000
2013	63,634,000	4,548,000	5,816,000	73,998,000
2012	61,811,000	4,575,000	5,852,000	72,238,000
2011	55,896,000	3,867,000	5,583,000	65,346,000
2010	53,956,000	3,815,000	5,605,000	63,376,000
2009	51,757,000	3,783,000	5,632,000	61,172,000
2008	50,117,000	4,103,000	5,633,000	59,853,000
2007	48,461,000	3,749,000	5,232,000	57,442,000

* Reflects monthly benefits in pay status, multiplied by 12. Not intended to agree with actual payouts in the prior year as shown on the previous page.

STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit as of June 30, 2014

General																		
Amount of Monthly Benefit	Number of Retirees	Type of Retirement															Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	1	2
Deferred**	823																	
\$1-\$300	290	44	4	0	22	1	107	49	0	36	1	0	0	19	6	1	77	140
\$301-\$600	470	73	4	0	68	6	149	73	1	69	0	0	0	21	6	0	107	252
\$601-\$900	296	32	1	1	39	8	124	56	0	27	0	0	0	2	6	0	65	168
\$901-\$1,200	258	13	2	0	26	9	131	68	0	8	0	0	0	1	0	0	78	132
\$1,201-\$1,500	256	15	2	0	16	17	135	62	0	7	0	0	0	1	1	0	86	153
\$1,501-\$1,800	204	5	1	1	12	8	98	78	0	1	0	0	0	0	0	0	89	108
\$1,801-\$2,100	192	5	0	0	8	6	132	41	0	0	0	0	0	0	0	0	73	117
\$2,101-\$2,400	143	2	1	0	4	2	99	34	0	1	0	0	0	0	0	0	58	80
\$2,401-\$2,700	126	0	0	0	4	0	103	19	0	0	0	0	0	0	0	0	47	78
\$2,701-\$3,000	97	1	0	0	2	1	85	8	0	0	0	0	0	0	0	0	31	66
Over \$3,000	205	1	1	0	3	1	187	11	0	1	0	0	0	0	0	0	53	149
Totals	3,360	191	16	2	204	59	1,350	499	1	150	1	0	0	44	19	1	764	1,443

Firefighters and Police																		
Amount of Monthly Benefit	Number of Retirees	Type of Retirement															Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	1	2
Deferred**	229																	
\$1-\$300	26	4	0	0	4	5	3	1	0	9	0	0	0	0	0	0	6	6
\$301-\$600	88	13	0	0	15	15	18	2	0	21	2	0	2	0	0	0	13	31
\$601-\$900	74	13	0	2	9	20	18	8	0	3	0	0	1	0	0	0	10	32
\$901-\$1,200	64	2	3	1	9	10	27	9	0	2	0	1	0	0	0	0	10	25
\$1,201-\$1,500	69	1	1	1	5	9	38	11	0	0	1	1	1	0	0	0	8	34
\$1,501-\$1,800	57	2	1	2	2	13	25	11	0	0	0	0	0	0	1	0	8	37
\$1,801-\$2,100	74	0	0	0	5	12	45	12	0	0	0	0	0	0	0	0	16	53
\$2,101-\$2,400	78	0	0	0	2	15	47	13	0	0	0	1	0	0	0	0	18	56
\$2,401-\$2,700	97	0	0	0	2	8	76	11	0	0	0	0	0	0	0	0	28	68
\$2,701-\$3,000	97	0	0	0	0	11	74	11	0	0	1	0	0	0	0	0	30	66
Over \$3,000	457	1	0	0	2	9	431	9	0	0	2	2	1	0	0	0	116	340
Totals	1,410	36	5	6	55	127	802	98	0	35	6	5	5	0	1	0	263	748

Total																		
Amount of Monthly Benefit	Number of Retirees	Type of Retirement															Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	1	2
Deferred**	1,052																	
\$1-\$300	316	48	4	0	26	6	110	50	0	45	1	0	0	19	6	1	83	146
\$301-\$600	558	86	4	0	83	21	167	75	1	90	2	0	2	21	6	0	120	283
\$601-\$900	370	45	1	3	48	28	142	64	0	30	0	0	1	2	6	0	75	200
\$901-\$1,200	322	15	5	1	35	19	158	77	0	10	0	1	0	1	0	0	88	157
\$1,201-\$1,500	325	16	3	1	21	26	173	73	0	7	1	1	1	1	1	0	94	187
\$1,501-\$1,800	261	7	2	3	14	21	123	89	0	1	0	0	0	0	1	0	97	145
\$1,801-\$2,100	266	5	0	0	13	18	177	53	0	0	0	0	0	0	0	0	89	170
\$2,101-\$2,400	221	2	1	0	6	17	146	47	0	1	0	1	0	0	0	0	76	136
\$2,401-\$2,700	223	0	0	0	6	8	179	30	0	0	0	0	0	0	0	0	75	146
\$2,701-\$3,000	194	1	0	0	2	12	159	19	0	0	1	0	0	0	0	0	61	132
Over \$3,000	662	2	1	0	5	10	618	20	0	1	2	2	1	0	0	0	169	489
Totals	4,770	227	21	8	259	186	2,152	597	1	185	7	5	5	44	20	1	1,027	2,191

* Beneficiaries were excluded.

Type of Retirement:

- | | | |
|---------------------------|-----------------------------|------------------------------------|
| 1 = Resigned | 6 = Normal Retirement | 11 = Accidental Disability (Heart) |
| 2 = Ordinary Death | 7 = Early Retirement | 12 = Accidental Disability (Lung) |
| 3 = Accidental Death | 8 = Inactive Vested | 13 = Terminated |
| 4 = Ordinary Disability | 9 = Vested Interest Service | 14 = Dismissed |
| 5 = Accidental Disability | 10 = Compulsory Service | 15 = From Perm to Ineligible |

Assumed Option Selected (based on marital status in data provided):

- 1 = Straight Life Annuity
2 = Joint and 50% Survivor

** Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them.

STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit as of June 30, 2014

General						
Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred**	823					
\$1-\$300	290	210	73	7	77	140
\$301-\$600	470	314	111	45	107	252
\$601-\$900	296	196	63	37	65	168
\$901-\$1,200	258	176	48	34	78	132
\$1,201-\$1,500	256	208	17	31	86	153
\$1,501-\$1,800	204	177	7	20	89	108
\$1,801-\$2,100	192	176	2	14	73	117
\$2,101-\$2,400	143	132	5	6	58	80
\$2,401-\$2,700	126	121	1	4	47	78
\$2,701-\$3,000	97	94	0	3	31	66
Over \$3,000	205	198	3	4	53	149
Totals	3,360	2,002	330	205	764	1,443

Firefighters and Police						
Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred**	229					
\$1-\$300	26	11	14	1	6	6
\$301-\$600	88	36	44	8	13	31
\$601-\$900	74	27	32	15	10	32
\$901-\$1,200	64	24	29	11	10	25
\$1,201-\$1,500	69	30	27	12	8	34
\$1,501-\$1,800	57	31	12	14	8	37
\$1,801-\$2,100	74	52	5	17	16	53
\$2,101-\$2,400	78	56	4	18	18	56
\$2,401-\$2,700	97	86	1	10	28	68
\$2,701-\$3,000	97	85	1	11	30	66
Over \$3,000	457	442	1	14	116	340
Totals	1,410	880	170	131	263	748

Total						
Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred**	1,052					
\$1-\$300	316	221	87	8	83	146
\$301-\$600	558	350	155	53	120	283
\$601-\$900	370	223	95	52	75	200
\$901-\$1,200	322	200	77	45	88	157
\$1,201-\$1,500	325	238	44	43	94	187
\$1,501-\$1,800	261	208	19	34	97	145
\$1,801-\$2,100	266	228	7	31	89	170
\$2,101-\$2,400	221	188	9	24	76	136
\$2,401-\$2,700	223	207	2	14	75	146
\$2,701-\$3,000	194	179	1	14	61	132
Over \$3,000	662	640	4	18	169	489
Totals	4,770	2,882	500	336	1,027	2,191

* Beneficiaries were excluded.

Assumed Option Selected (based on marital status in data provided):

- 1 = Straight Life Annuity
- 2 = Joint and 50% Survivor

** Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them.

STATISTICAL SECTION

Schedule of Average Benefit Payments (Excludes Beneficiaries)

Retirement Effective Dates	General						
	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
July 1, 2007 to June 30, 2008							
Average Monthly Benefit	\$185	\$634	\$464	\$839	\$1,298	\$1,724	\$2,643
Average - Average Final Compensation	\$46,281	\$55,669	\$25,605	\$30,289	\$39,042	\$41,935	\$48,041
Number of Active Retirees	1	3	21	10	10	12	17
July 1, 2008 to June 30, 2009							
Average Monthly Benefit	\$239	\$349	\$485	\$1,040	\$1,471	\$1,754	\$3,051
Average - Average Final Compensation	\$46,768	\$32,914	\$24,506	\$39,305	\$45,720	\$46,559	\$54,014
Number of Active Retirees	2	8	21	6	13	15	29
July 1, 2009 to June 30, 2010							
Average Monthly Benefit	\$255	\$353	\$671	\$1,032	\$1,674	\$1,760	\$3,183
Average - Average Final Compensation	\$56,408	\$28,140	\$34,678	\$35,201	\$45,681	\$43,832	\$56,322
Number of Active Retirees	3	11	17	14	10	13	26
July 1, 2010 to June 30, 2011							
Average Monthly Benefit	\$292	\$483	\$730	\$794	\$1,993	\$1,978	\$2,621
Average - Average Final Compensation	\$67,794	\$37,910	\$37,825	\$29,340	\$59,928	\$48,978	\$47,875
Number of Active Retirees	3	11	25	13	9	21	24
July 1, 2011 to June 30, 2012							
Average Monthly Benefit	\$171	\$495	\$724	\$1,367	\$1,479	\$1,863	\$2,920
Average - Average Final Compensation	\$36,365	\$40,248	\$35,468	\$55,196	\$44,673	\$46,225	\$52,447
Number of Active Retirees	9	22	34	17	28	29	81
July 1, 2012 to June 30, 2013							
Average Monthly Benefit	\$59	\$388	\$736	\$1,091	\$1,491	\$1,839	\$2,952
Average - Average Final Compensation	\$45,074	\$37,996	\$36,136	\$42,448	\$45,137	\$52,759	\$56,544
Number of Active Retirees	6	14	32	19	6	12	16
July 1, 2013 to June 30, 2014							
Average Monthly Benefit	\$112	\$403	\$810	\$1,143	\$1,588	\$1,851	\$2,893
Average - Average Final Compensation	\$39,457	\$35,935	\$39,842	\$45,489	\$48,857	\$45,742	\$54,459
Number of Active Retirees	7	23	23	17	9	23	48

STATISTICAL SECTION

Schedule of Average Benefit Payments (Excludes Beneficiaries)

Retirement Effective Dates	Firefighters and Police						
	Years of Credited Service						
	<u>0-5</u>	<u>5-10</u>	<u>10-15</u>	<u>15-20</u>	<u>20-25</u>	<u>25-30</u>	<u>30+</u>
July 1, 2007 to June 30, 2008							
Average Monthly Benefit	\$0	\$0	\$1,009	\$1,262	\$2,306	\$3,133	\$3,813
Average - Average Final Compensation	\$0	\$0	\$38,885	\$41,792	\$55,327	\$56,746	\$73,102
Number of Active Retirees	0	0	2	3	5	10	5
July 1, 2008 to June 30, 2009							
Average Monthly Benefit	\$0	\$0	\$540	\$1,452	\$2,914	\$3,763	\$3,381
Average - Average Final Compensation	\$0	\$0	\$25,951	\$42,421	\$58,382	\$68,073	\$62,851
Number of Active Retirees	0	0	8	4	6	17	4
July 1, 2009 to June 30, 2010							
Average Monthly Benefit	\$0	\$0	\$0	\$0	\$2,947	\$3,469	\$4,038
Average - Average Final Compensation	\$0	\$0	\$0	\$0	\$63,537	\$62,716	\$72,885
Number of Active Retirees	0	0	0	0	10	14	10
July 1, 2010 to June 30, 2011							
Average Monthly Benefit	\$0	\$1,452	\$1,131	\$1,293	\$2,594	\$3,544	\$3,884
Average - Average Final Compensation	\$0	\$90,137	\$30,385	\$36,401	\$54,084	\$64,253	\$69,916
Number of Active Retirees	0	2	4	2	3	18	8
July 1, 2011 to June 30, 2012							
Average Monthly Benefit	\$0	\$0	\$1,270	\$2,125	\$2,995	\$3,493	\$3,786
Average - Average Final Compensation	\$0	\$0	\$37,819	\$46,354	\$62,583	\$64,486	\$69,698
Number of Active Retirees	0	0	5	3	8	21	5
July 1, 2012 to June 30, 2013							
Average Monthly Benefit	\$0	\$0	\$1,098	\$2,321	\$2,620	\$3,247	\$4,159
Average - Average Final Compensation	\$0	\$0	\$34,508	\$50,676	\$56,745	\$59,975	\$75,003
Number of Active Retirees	0	0	4	2	9	22	9
July 1, 2013 to June 30, 2014							
Average Monthly Benefit	\$0	\$451	\$650	\$1,651	\$2,978	\$3,387	\$4,410
Average - Average Final Compensation	\$0	\$33,116	\$34,047	\$43,775	\$60,253	\$62,282	\$79,759
Number of Active Retirees	0	1	5	2	6	20	10

STATISTICAL SECTION

Schedule of Average Benefit Payments (Excludes Beneficiaries)

Retirement Effective Dates	Total						
	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
July 1, 2007 to June 30, 2008							
Average Monthly Benefit	\$185	\$634	\$511	\$937	\$1,634	\$2,365	\$2,909
Average - Average Final Compensation	\$46,281	\$55,669	\$26,760	\$32,944	\$44,470	\$48,668	\$53,737
Number of Active Retirees	1	3	23	13	15	22	22
July 1, 2008 to June 30, 2009							
Average Monthly Benefit	\$239	\$349	\$500	\$1,205	\$1,927	\$2,821	\$3,091
Average - Average Final Compensation	\$46,768	\$32,914	\$24,904	\$40,551	\$49,719	\$57,989	\$55,085
Number of Active Retirees	2	8	29	10	19	32	33
July 1, 2009 to June 30, 2010							
Average Monthly Benefit	\$255	\$353	\$671	\$1,032	\$2,311	\$2,646	\$3,420
Average - Average Final Compensation	\$56,408	\$28,140	\$34,678	\$35,201	\$54,609	\$53,624	\$60,923
Number of Active Retirees	3	11	17	14	20	27	36
July 1, 2010 to June 30, 2011							
Average Monthly Benefit	\$292	\$632	\$785	\$861	\$2,143	\$2,701	\$2,937
Average - Average Final Compensation	\$67,794	\$45,945	\$36,799	\$30,282	\$58,467	\$56,028	\$53,385
Number of Active Retirees	3	13	29	15	12	39	32
July 1, 2011 to June 30, 2012							
Average Monthly Benefit	\$171	\$495	\$794	\$1,481	\$1,816	\$2,547	\$2,970
Average - Average Final Compensation	\$36,365	\$40,248	\$35,770	\$53,870	\$48,653	\$53,894	\$53,450
Number of Active Retirees	9	22	39	20	36	50	86
July 1, 2012 to June 30, 2013							
Average Monthly Benefit	\$59	\$388	\$776	\$1,208	\$2,168	\$2,750	\$3,386
Average - Average Final Compensation	\$45,074	\$37,996	\$35,955	\$43,232	\$52,102	\$57,429	\$63,189
Number of Active Retirees	6	14	36	21	15	34	25
July 1, 2013 to June 30, 2014							
Average Monthly Benefit	\$112	\$405	\$782	\$1,197	\$2,144	\$2,565	\$3,155
Average - Average Final Compensation	\$39,457	\$35,818	\$38,807	\$45,309	\$53,416	\$53,435	\$58,821
Number of Active Retirees	7	24	28	19	15	43	58

COMPLIANCE SECTION

COMPLIANCE SECTION



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Trustees
Employees' Retirement System of the City of Norfolk:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Employees' Retirement System of the City of Norfolk (the System), a fiduciary fund of the City of Norfolk, which comprise the statement of plan net position as of June 30, 2014, and the related statement of changes in plan net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2014, which included a paragraph emphasizing that in fiscal year 2014, the System retrospectively adopted the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*.

Internal Control Over Financial Reporting

In planning and performing our audit of the System's financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this Section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control as described below that we consider to be a significant deficiency:



2014-001: Finance and Accounting Resources

Over the past several years, the complexity of accounting principles and the related financial reporting requirements have been increasing, which results in a corresponding increase in the complexity of the financial reporting process. This increase in complexity necessitates an evaluation of the depth and number of qualified resources in the accounting function and the degree of technical accounting literature training received annually by those individuals.

Although the System has made improvements with respect to the process to prepare and review the Comprehensive Annual Financial Report (CAFR), there is still a need for an increased number of trained resources within the System's accounting function in order to enhance the precision of review associated with the preparation of the CAFR and the related posting of closing journal entries. Maintaining sufficient resources to prepare, review, and document financial information and ensure proper segregation of duties is critical to the completeness, accuracy and timeliness of the financial reporting process, the maintenance of effective internal control and the ability of an organization to incorporate new and complex accounting standards into the process on a timely basis. We encourage the System to reassess the appropriate number of adequately trained and qualified finance and accounting resources needed to maintain a high level of quality in financial accounting and reporting and generate complete and accurate financial statements in a timely manner.

In addition, the System holds a significant investment in nonexchange traded investment funds. The valuation of these investments is performed by the custodian of the assets and is based on the net asset value of each fund as determined by the fair value of the underlying investments. While certain internal controls over the valuation performed by the custodian are in place, management should adopt and regularly perform a control to obtain and reconcile the audited financial statements of these funds to the net asset value recorded in the System's accounting records. This control is important in validating the fair value of the System's investments as reported to management by the System's custodian.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
December 19, 2014